

KOMMUNINVEST ANNUAL REPORT

2011

Kommuninvest's assignment is to finance Swedish municipalities and county councils. The year 2011 was one of continued growth in membership and lending. About 45 percent of local government sector's financing is arranged by Kommuninvest.

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Annual report for Kommuninvest i Sverige AB (publ)

This is the Annual Report for the credit market company Kommuninvest i Sverige AB. The Annual Report for the owner, the Kommuninvest Cooperative Society, is available at www.kommuninvest.se. The English versions of the Annual Report and Audit Report for Kommuninvest i Sverige AB (publ) are translations from the Swedish originals.

Cover picture _____

The water tower in Valsta.

The Municipality of Sigtuna has been a member of the Kommuninvest Cooperative Society since 2002.



Kumla Lake Park.
The Municipality of Kumla has been a member of the Kommuninvest Cooperative Society since 1993.

We reduce financing costs for Swedish local government authorities...

Municipalities and county councils provide citizens with many of the services that are essential in a well-functioning society. A large part of the municipalities' and county councils' operations are tax funded and it is in the interest of the citizens that they are managed as efficiently as possible. One area where considerable savings can be made is borrowing.

Kommuninvest endeavours to enable the local government sector to borrow funds on the best possible terms. Our assignment entails securing access to stable and cost-efficient financing for Swedish municipalities and county councils. We support local government finance activities through financing, financial advice, knowledge development and cooperation. We finance public facilities and services.

...and offer creditors a sound investment.

On behalf of the local government sector, Kommuninvest borrows funds on international and national capital markets. We apply a diversified borrowing strategy and work with a broad spectrum of investors, investment instruments and currencies. Kommuninvest holds the highest possible credit rating – AAA/Aaa – from two independent credit rating institutions.



Kommuninvest in brief

The local government sector's cooperation through Kommuninvest is intended to enhance the efficiency of the sector's financing and to support increased financial stability. Kommuninvest is the largest lender to the Swedish local government sector. Its total lending at the end of 2011 amounted to SEK 168 billion. Kommuninvest's vision is to be the natural choice for Swedish municipalities and county councils when it comes to products and tools for efficient financial management focusing on financing.

When Kommuninvest was founded by nine municipalities and Örebro County Council in 1986, it was with the same simple concept that still pervades its operations today: to work together to obtain better borrowing terms and to increase competition in the market for local government financing. Today, the cooperation includes 267 municipalities and county councils, meaning that more than 85 percent of Swedish municipalities and county councils are able to borrow through Kommuninvest. All of the operations of Kommuninvest are carried out by the credit market company Kommuninvest i Sverige AB, a wholly-owned subsidiary of the Kommuninvest Cooperative Society.

Lending solely to the local government sector

Kommuninvest's products and services are only available to municipalities and county councils who are members of the Kommuninvest Cooperative Society and companies in which members are majority shareholders.

Kommuninvest acts as a tool that allows Swedish municipalities and county councils to be able to secure stable and cost-efficient financing. The operations help reduce risk in the financing of local government activities and therefore contribute to increased financial stability in the local government sector. To date, operations have focused primarily on financing and risk management in connection with customers' borrowing.

Exceptional position as borrower

Joint and several guarantee from the owners/members

All members of Kommuninvest Cooperative Society provide an explicit guarantee, in the form of a joint and several guarantee, for the commitments entered into by the credit market company Kommuninvest i Sverige AB. The guarantee is considered very strong since municipalities and county councils cannot be declared bankrupt and cannot cease to exist other than by merging, and since the state bears the ultimate responsibility for the activities of the municipalities and county councils.

High asset quality

Kommuninvest lends solely to Swedish municipalities and county councils and, conditional on a local government surety, their majority-owned companies. The lending operations are zero risk weighted according to current capital adequacy rules.

Highest possible rating

Kommuninvest has the highest possible credit rating, AAA/Aaa, from two independent credit rating institutes.

Multi-year summary

	2011	2010	2009	2008	2007
Balance sheet total, SEK billion	234.0	190.2	183.1	142.7	109.9
Lending, SEK billion	168.1	133.7	123.6	104.7	77.9
Profit, SEK million	300.6	140.6	170.6	44.5	24.1
Members, total	267	260	248	223	210
of which, municipalities	259	253	241	216	203
of which, county councils	8	7	7	7	7
Capitalisation (capital base as % of balance sheet total)	0.81%	0.99%	0.34%	0.34%	0.37%
Adjusted capitalisation (1)	0.95%	0.99%	0.34%	0.34%	0.37%
Capital adequacy quota (2)	5.71	10.09	3.55	3.35	1.81

(1) The capital base adjusted for a new share issue (corresponding to refund and interest), which is additional and related to the profit for 2011.

(2) Capital base divided by capital requirement, pillar I in accordance with Basel II.

Business concept, objectives and vision

– Kommuninvest i Sverige AB

Business concept

Kommuninvest i Sverige AB's remit is to create the most favourable long-term conditions for its owners' financial operations based on a foundation of lo-

cal government values. It achieves this by providing access to competitive loans, tools and services that contribute to effective financial management.

Objectives

Growth	Kommuninvest's lending is expected to amount to at least 70 percent of the local government external borrowing by 2015.
Stability	Kommuninvest needs to show positive results in order to support anticipated growth in membership and lending. The target is for the capital base to correspond to at least 1 percent of the balance sheet total on a sustained basis.
Efficiency	The costs of the operations, excluding the stability fee, should by 2015 amount to at most 0.08 percent of the lending volume on a sustained basis.
Employees	Kommuninvest shall be an attractive company to work in and shall have a strong employer brand. This is assessed by means of an employee satisfaction index, among other things.

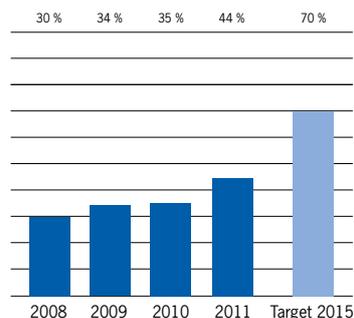
Vision

Kommuninvest is the natural choice for Swedish municipalities and county councils when it comes to products and tools for efficient financial management focusing on financing. Competitive solutions, efficient service and sound advice mean satisfied cus-

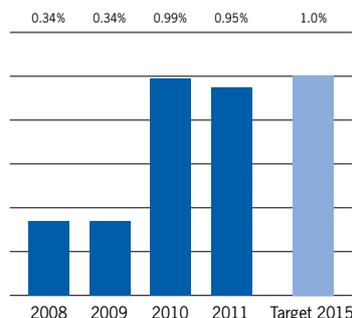
tomers. As a tool in securing the financing needs of the local government sector, Kommuninvest's operations shall maintain a special position in relation to the external environment.

Goals and goal achievement

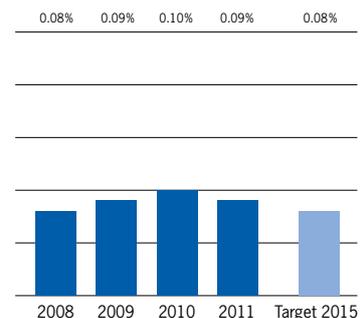
Growth, Kommuninvest's share of the local government sector's total external borrowing



Stability, adjusted capital base as % of balance sheet total (see page 2)



Efficiency, costs of the operations excluding the stability fee as % of lending



2011

Results for 2011

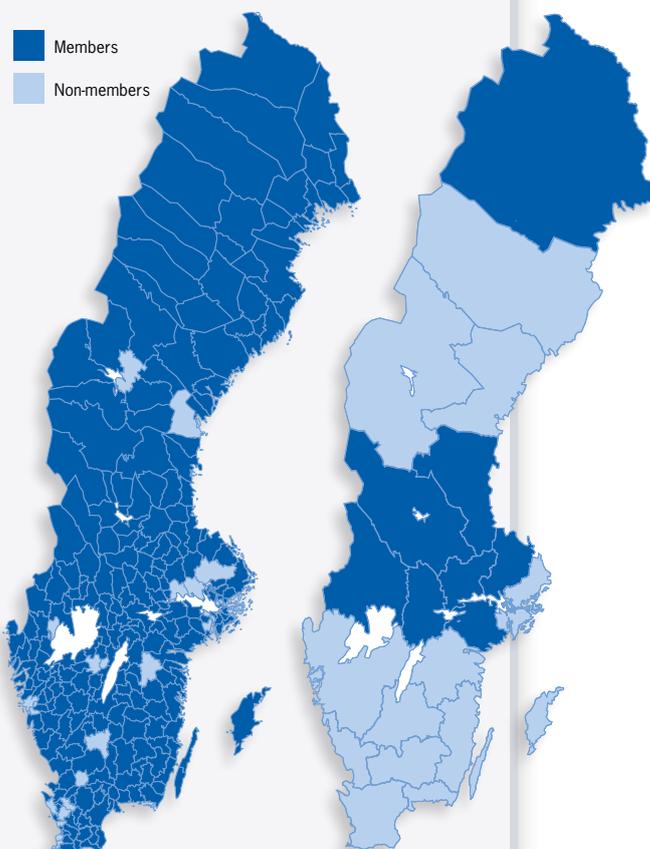
- 7 (12) municipalities and county councils became new members. At the end of the year, Kommuninvest had 267 (260) members.
- Lending rose by 26 percent to SEK 168.1 (133.7) billion. The balance sheet total rose to SEK 234.0 (190.2) billion.
- Operating profit amounted to SEK 396.1 (275.7) million. Income for the year was SEK 300.6 (140.6) million.
- The capital adequacy quota was 5.71 (10.09), corresponding to a capital adequacy ratio of 45.7 (80.7) percent.
- Kommuninvest retained the market's highest ratings: Aaa (Moody's), AAA (Standard & Poor's).

Number of members and lending, 2002–2011



New members in 2011

- Member No. 267: City of Borås
- Member No. 266: Municipality of Gislaved
- Member No. 265: Municipality of Nyköping
- Member No. 264: Municipality of Perstorp
- Member No. 263: City of Solna
- Member No. 262: Dalarna County Council
- Member No. 261: Municipality of Norrtälje



Municipal members,
31 December 2011

County council members,
31 December 2011



THE YEAR IN BRIEF

February

Seven-year Local Government Bond K1708

The issue of a new seven-year bond in Kommuninvest's Swedish Benchmark Bond Programme was fully subscribed in one hour – a total of SEK 3.1 billion was issued. The issue gives Swedish municipalities and county councils access to long-term loans on favourable terms.

March

Borrowing team in Abu Dhabi

Kommuninvest's borrowing team regularly visits investors all over the world to market Kommuninvest and to secure access to cost-efficient financing. During March, the team travelled to Abu Dhabi and Australia.

April

Anniversary Annual General Meeting

In April 2011, Kommuninvest's 25th anniversary was celebrated at the Annual General Meeting of the Society in Stockholm. Nearly 70 percent of the members of the Kommuninvest Cooperative Society were represented.

July

AAA rating confirmed

Two independent credit rating institutes assess Kommuninvest's creditworthiness on an on-going basis. In July, Standard & Poor's confirmed its AAA rating and in October, Moody's confirmed its Aaa rating. Kommuninvest has maintained the highest possible creditworthiness conveyed by both institutes since Moody's began monitoring the company in 2002 and Standard & Poor's in 2006.

September

Lending exceeds SEK 150 billion

On 22 September 2011, Alvesta Elnät AB, Tyresö Bostäder and the Municipality of Örebro took out loans with Kommuninvest, bringing total lending above SEK 150 billion. SEK 100 billion was passed in 2008 and SEK 50 billion in 2004, 18 years after Kommuninvest's inception in 1986.

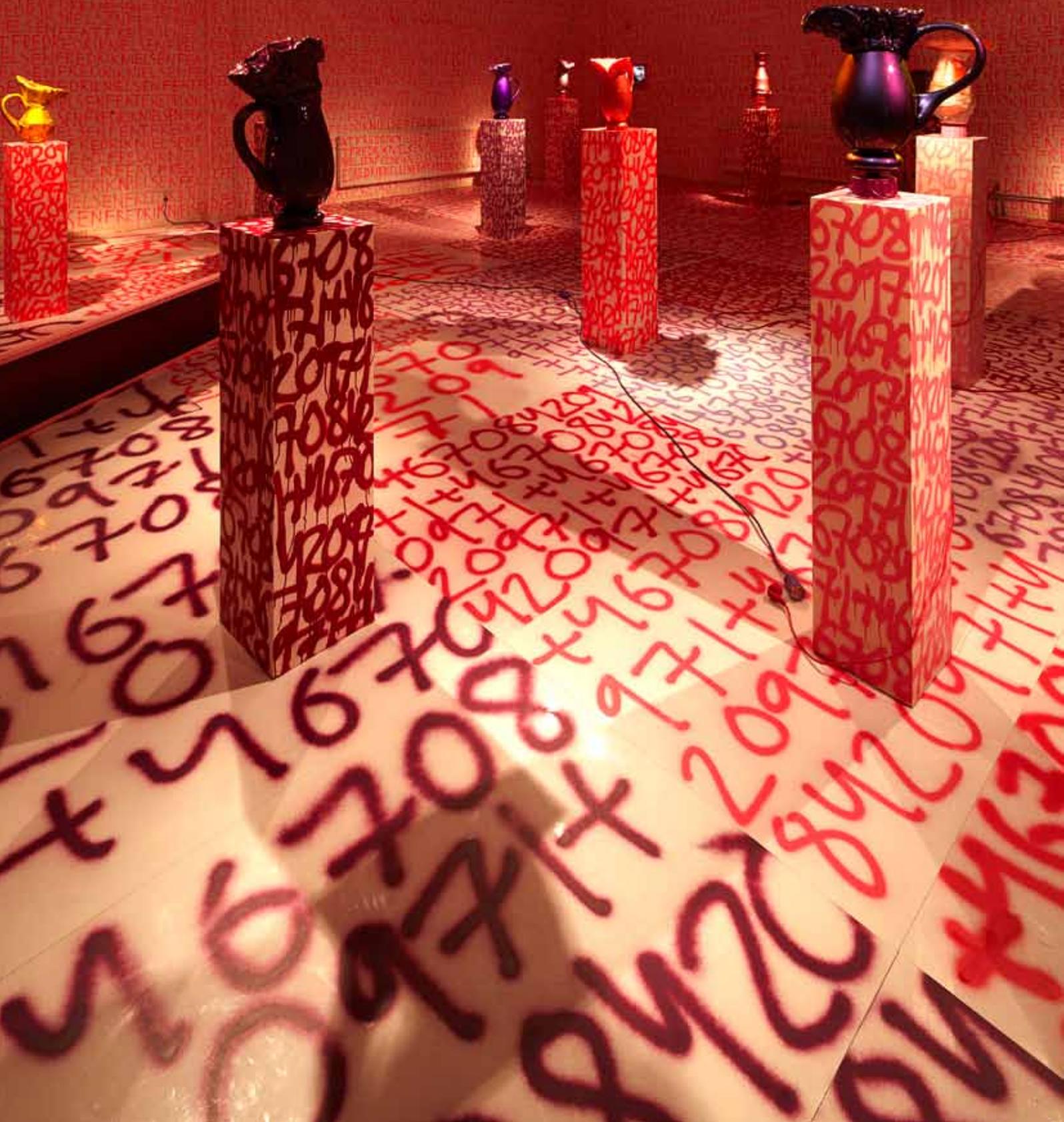
October

"Kommuninvest in Society" leads to new partnership agreements

Kommuninvest's corporate sustainability programme "Kommuninvest in Society" was launched in 2011. The efforts that deal with the reinforcement of Kommuninvest's employer brand focus primarily on local social commitment.



Glasmuseet (The Glass Factory) in Boda.
The Municipality of Emmaboda has been
a member of the Kommuninvest
Cooperative Society since 2007.



Cooperation grows ever stronger

In times of financial unease, the importance of stable and cost-efficient financing for the local government sector increases. This was also the case in 2011 – a year in which the European debt crisis in particular contributed to considerable uncertainty in the financial markets, with increased costs and concerns for borrowers in financing their operations. The local government authorities' finance cooperation through Kommuninvest has strengthened – 267 municipalities and county councils are now members. With higher lending volumes than ever, the value of cooperation and Kommuninvest's increased contribution to financial stability is made evident.

In 2011, Kommuninvest passed SEK 150 billion in loans for the first time – a natural increase and one that I expect will continue. The reformed regulatory system within the financial sector, with increasing demands in terms of capital and liquidity, generally entails raised price levels for bank loans to Swedish local government authorities and thus to increased demand for Kommuninvest's loans. We win nine out of ten procurement processes.

Over the past ten years, Kommuninvest's lending growth has exceeded 16 percent per year. This almost incredible trend is explained by the increase in membership and the fact that the local government authorities increasingly elect to secure their financing through Kommuninvest. Currently, the average municipality and the companies it owns secure 65 (54) percent of their borrowing through Kommuninvest. Even including non-member municipalities, Kommuninvest accounts for 44 (35) percent of the local government sector's total borrowing.

Kommuninvest's substantial credit expansion reflects a reallocation of the local government sector's external loan financing, from the bank sector to its own cooperative venture. The local government sector's overall indebtedness is increasing marginally. I would also like to point out that Kommuninvest's credit expansion has a value of its own. When a municipality or county council replaces more expensive borrowing with borrowing from Kommuninvest, it generates savings that can be used for welfare ventures or to lower the tax rate.

An increasing proportion of our growth is attributable to lending to existing customers. Since more than 85 percent of Sweden's 310 municipalities and county councils/regions are already members, and owners, of Kommuninvest, membership growth will naturally abate. At the same time, the three largest municipalities (Stockholm, Gothenburg and Malmö) and the largest county councils/regions (Stockholm, Skåne and Västra Götaland) have chosen to arrange their financing independently. Were any of these authorities to become members, the effect on Kommuninvest's lending volumes would be considerable.

Capitalisation in focus

Kommuninvest's credit expansion brings challenges since the capital base must be built up more rapidly to meet the requirement set by the owners that



Tomas Werngren, President and CEO

equity should correspond to 1 percent of the balance sheet total by the close of 2015. The capitalisation target is fully achievable – despite the rapid growth in lending, we are ahead of our build-up plan thanks to increased margins.

Kommuninvest has been working on the issue of increased capitalisation since the financial crisis of 2008/2009 and has undertaken a number of measures. The capital base in the credit market company has been strengthened both through increased earnings as well as a subordinated loan of SEK 1 billion from the members of the Society. For 2011, capitalisation amounted to 0.81 percent at the end of the year.

Effective from the 2011 financial year, Kommuninvest will apply refunds of surpluses to make visible the results of Kommuninvest i Sverige AB to the owners/members of the Kommuninvest Cooperative Society. At the same time, a requirement to make an annual capital contribution will be introduced. This means that the owners/members will be able to benefit from the earnings of Kommuninvest i Sverige AB without this negatively affecting the company's capi-

tal base. Refunds and capital investment payments are expected to be made during the first half of 2012, with the effect that the results for 2011 will be reflected in the capital base with a certain delay. Had refunds and capital investment payments been made as per 31 December 2011, the adjusted capital base would have been 0.95 percent.

However, I see no possibility of capitalising Kommuninvest, through earnings, to the level required if legislators' proposal of a leverage ratio, that is, a general capitalisation level, of at least 3 percent is introduced as a mandatory requirement. The question of how Kommuninvest should address the introduction of a leverage ratio is being studied and a proposal will be presented to the Boards of the company and the cooperative society in 2012. However, the documented support among owners for securing

The reformed regulatory system generally entails raised price levels for bank loans to Swedish local government authorities and increased demand for Kommuninvest's loans. We have a strong initial position and are prepared to meet tougher requirements.

Kommuninvest's future expansion and operations is strong – as evidenced by the issue of the subordinated loan, which was oversubscribed and backed 100 percent by the members.

Clearer member responsibilities

In recent years, Kommuninvest has gained a large number of new members. Six municipalities and one county council (Dalarna County Council) became members in 2011. The increased interest from the county councils is particularly pleasing. Increased investment needs among county councils cause us to expect more membership applications from them over the coming years.

Our strategic efforts focus on being able to fulfil our assignment in a situation where all of Sweden's municipalities and county councils are members. We apply a model based on clear member responsibility, with the joint and several guarantee undertaking as the foremost expression of the members' desire for our operations to remain stable in the long term. In 2011, the legal framework needed updating and it is with pleasure that I can affirm that all member municipalities and county councils approved, through council resolutions, an updated recourse agreement and a new agreement dealing with Kommuninvest's counterparty exposures. Consequently, the members' responsibility for Kommuninvest's operations has been clarified.

Stable financial results

As an effect of increased lending volumes and higher interest rates, Kommuninvest's net interest income rose to SEK 572.6 (432.1) million in 2011. Operating profit for the year was SEK 396.1 (275.7) million. At the end of the year, Kommuninvest's total lending amounted to SEK 168.1 (133.7) billion, including accrued interest. This represented an increase of nearly 26 percent. The number of members in the Cooperative Society rose to a total of 267 (260).

Profit available for distribution amounted to SEK 300.6 (140.6) million. The refunds to be paid to owners/members will entail an increase in their revenues and assets and that their actual borrowing costs will decrease. The refund for 2011 corresponds to a decrease in borrowing costs by approximately 20 basis points for the average member's borrowing from Kommuninvest.

High level of activity in borrowing

Kommuninvest provides an attractive offering to investors. We focus entirely on financing Swedish municipalities and county councils, which levy their own taxes and maintain a very high level of creditworthiness. The fact that we come from Sweden in particular is an advantage since Sweden is, in a number of contexts, held up as a role model with regard to general government finances and economic development. Sweden is also not a member of the European currency collaboration, which is appreciated by investors in times of crisis.

Historically, we have prioritised borrowing from foreign markets ahead of the Swedish market, although we are currently working to achieve a more even distribution. Our objective is to achieve a 50/50 distribution in 2015. Even with a shift towards the Swedish borrowing market, we will need to maintain our position as a significant international borrower – our annual borrowing needs from foreign markets exceed SEK 50 billion.

Over the year, we continued to develop our Swedish bond programme, a benchmark programme that is intended to become Kommuninvest's largest borrowing programme. The programme now includes four maturities and forms the foundation of our Swedish borrowing operations.

We have continued to be able to borrow from the foreign borrowing markets on favourable terms. Kommuninvest's products are in demand in the Japanese market in particular. It is encouraging that we have implemented several issues in our Australian Kangaroo programme – it is important to maintain channels in as many major borrowing markets as possible. In 2012, we will progress with 144A documentation in the US market, meaning that Kommuninvest's issues will also be available to domestic American institutional investors.



Local government is affected by the debt crisis

Developments in Europe weighed heavily on the financial markets throughout 2011. At the time of writing, the European Central Bank's decision regarding subsidised loans to European banks has, in particular, had the effect of stabilising the markets. However, the credit rating institutes' downgrades of several European countries' credit ratings and of the European Stability Fund (ESFS) show that the problems are far from over.

Within the euro collaboration, a broader consensus has been established on the need for federative

When a municipality or county council replaces more expensive borrowing with borrowing from Kommuninvest, it generates savings that can be used for welfare ventures.

measures and there is now a greater understanding among politicians and citizens alike that countries may, under certain circumstances, need to contribute to the economic development of other countries. At the same time, the risk remains that one or more countries will quit the currency collaboration and the price for that would be very high – not only in financial terms. Even more widespread social unrest could result.

We are in the midst of a drawn-out period of adjustment, in which decreased indebtedness will have an effect on asset values and economic growth. We must respect the fact that the adjustment process will likely take a long time.

Decreased growth in the euro zone will have a direct impact on the Swedish economy and we therefore expect several challenging years ahead. We see, ahead of us, a situation in which a handful of Swedish

municipalities will need to implement rigorous financial measures in an entirely different way than before. Weaker trends in tax bases and employment mean that the challenges will continue for several years.

We should remember that the municipalities have enjoyed a favourable trend for quite some time. However, rather than strengthening their balance sheets, the local government authorities have maintained a more expansive attitude with a relatively high pace of investment. In many areas, these have involved traditional social investments, such as in energy production or housing, to support growing communities. But they have also involved investments with considerably less stable revenue flows. Here, I am thinking of investments in multi-sport arenas and leisure complexes, for example.

In the current situation, with sound central government finances and local government debt equivalent to 11 percent of GDP, there is no particular cause for alarm. However, the local government sector also has pension commitments totalling some SEK 400 billion, or 12 percent of GDP, which are normally reported outside the balance sheet. If these commitments are also included, which in our assessment will increasingly have to be financed through loans as pension commitments are being paid out, the local government sector's debt amounts to 25 percent of GDP.

Nonetheless, most local government authorities have their finances in good order. In 2010, more local government authorities than ever, 187, reported a positive result amounting to at least 2 percent of tax revenues and central government grants. Only 16 reported a deficit.

Attempts are sometimes made to compare Swedish local government authorities that are experiencing difficulties with authorities in other parts of Europe. But

Kommuninvest provides an attractive offering to investors. We focus entirely on financing Swedish municipalities and county councils, which levy their own taxes and maintain a very high level of creditworthiness. The fact that we come from Sweden is an advantage in times of public debt crises.

there are considerable differences. One of these is the principle of local self-government, in which the right to levy taxes is a significant element. In addition, we have a strong system for the equalisation of revenues and expenses between the local government authorities, which contributes to a high level of transfers. We also have a functioning social contract, in which citizens are confident in the social apparatus, have a highly ethical attitude towards taxation and are prepared to agree to austerity measures when necessary.

Reflections on capital tied-up, derivatives and indebtedness

It is important that the local government sector have a financing strategy that holds up in good times and bad, that is based on the authorities' own operations and their financial conditions, and that is clear with regard to capital tied-up and fixed interest terms.

We see a positive trend – over 2011, the average period for which capital was tied up in Kommuninvest's lending portfolio rose from 1.4 to 1.8 years. However, this level nonetheless entails a refinancing risk both for the individual borrower, as well as for the sector as a whole.

Many local government authorities elect to raise loans with capital being tied up for short periods and to then use interest rate swaps to fix interest rates for a longer period. While this could well be the cheapest

The stability fee causes unreasonable effects for a credit institute such as Kommuninvest, which exclusively meets public sector financing needs, is operated without the principal purpose of generating profit and which is fully guaranteed by Swedish municipalities and county councils.

alternative, it may lead to increased risk, particularly if one has not mastered all aspects of these sometimes complex instruments.

Swedish local government financing concept is imitated

In the wake of the 2008/2009 financial crisis, we are now seeing an international trend in which an increasing number of countries are reorganising the way in which the local government sector is financed. For example, both France and New Zealand have developed models and the UK is working on one. In several cases, Kommuninvest is seen as a role model and current and former Kommuninvest employees are providing support with their knowledge and experience.

We welcome additional colleagues in the international arena. This is particularly important in the work on future regulatory systems for financial institutions. Here, we conduct active lobbying efforts, both on national and international levels, although we need to gain a stronger common voice and that can only be achieved if the local government financing institutions around the world grow in number. Today, regulations are extensively designed with the largest banks in mind and one can feel that the diversity of the sector is not reflected. Specialised financial institutions are sometimes caught in between.

My colleagues deserve recognition for their efforts and I want to thank them for their efforts over the past year.

This is, for example, the case with regard to the possible introduction of a leverage ratio, a proposal that disadvantages Kommuninvest and all financial institutes that are characterised by a low level of risk and a strong guarantee. It would be unfortunate if the regulations were to contribute to sub-optimisation and decreased financial stability and if the conditions for coordinating operations between municipalities and county councils through Kommuninvest were to become so challenging that the local government authorities were to find it advantageous to arrange their financing entirely under their own auspices.

At the national level, the stability fee is a highly current issue. Even when the stability fee was introduced, plans were in place for the credit institutes that assumed the highest risks to also pay a higher fee. This has not yet been borne out and, for example, zero-weighted lending to local government authorities is also subject to the fee. This has a severe impact on our results – the stability fee accounted for fully 35 percent of total costs in 2011. This is an unreasonable effect for a credit institute such as Kommuninvest, which exclusively meets public sector financing needs, that is operated without the principal purpose of generating profit and which is fully guaranteed by Swedish municipalities and county councils.

Thanks to my colleagues

We have made considerable recruitments in recent years and increased the workforce to nearly 60 people in 2011. Among other things, we strengthened our lending and advisory function with a number of specialists and we established a new back-office function for payments, setting interest rates, handling securities transactions, etc. We are also establishing a completely new group in the Funding and Treasury department, in which we are bringing together business law, documentation and control. This enhances proximity and improves the conditions for the professional management of our borrowing activities in line with our ambition to continuously improve quality and efficiency.

Naturally, the organisational changes made possible by our current growth exert stress on the organisation. I am particularly grateful that we have such competent and committed employees that we are able to implement demanding changes while continuing to deliver on many of the targets we have set. My colleagues deserve recognition and I want to thank them for their efforts over the past year.

Continued change in the local government financing landscape

According to Kommuninvest's calculations, the banks' lending to the local government sector has decreased by more than SEK 50 billion since the financial crisis of 2008/2009. Throughout the world, the trend is for specialised lenders, such as Kommuninvest, to account for an increasing proportion of welfare funding.

With extensive changes being made in the regulatory systems, we see a need to continue clarifying our role and mission, not only in the EU perspective but also in a national perspective. In the same way that it is natural for the government to have its own borrowing function, it is also natural for the local government sector to have its – and for regulations and guidelines to provide suitable conditions for this reality.

I feel that we have proved the Kommuninvest concept – coordinating efforts between municipalities and county councils to finance their operations – works. We are able to provide support with stable and cost-efficient financing through challenging periods in the financial markets. The next step is to develop and offer other products and services that contribute to the continued development of local government financial management. Most of all, I mean products that enhance the efficiency of short-term liquidity flows and more active debt management. I look forward to this over the coming years.

The fact that Kommuninvest continues to develop in line with its long-term targets is pleasing, but not in fact particularly surprising. The mood in the financial markets, combined with revolutionary regulatory changes for financial companies, favours players like us. Kommuninvest clearly makes a difference – particularly in uncertain times.

Örebro, February 2012



Tomas Werngren
President and CEO



Falun General Hospital.
Dalarna County Council has been
a member of the Kommuninvest
Cooperative Society since 2011.

The task: helping municipalities take the right loan at the right price

Kommuninvest is the largest lender to the Swedish local government sector. In 2011, lending rose by 26 percent to SEK 168 billion. The high bid acceptance rate contributes to stable growth in that Kommuninvest gradually increases its share of existing customers' borrowing.



"In the wake of new financial regulations and a changed landscape for local government financing, our lending continues to grow," says Pelle Holmertz, who is responsible for lending at Kommuninvest. "Another positive aspect is that local government authorities are borrowing with capital being tied up for increasing periods of time."

"We have had very good demand for our financing solutions and there are several explanations for this," says Pelle Holmertz. "One is the uncertain international situation. Furthermore, competition from the banks has gradually decreased since 2008 and a number of actors are no longer involved in lending to local government authorities."

The growth in Kommuninvest's lending is driven primarily by two factors: in part, the extent to which existing members and customers are increasing their borrowing with Kommuninvest and, in part, the pace

"It has grown evident that, in the long run, the bank sector will find it difficult to compete in local government financing and that it will, to an increasing extent, seek to assume the role as an arranger of direct borrowing."

at which new members and customers begin their borrowing. At the end of 2011, Kommuninvest had 267 members, of whom seven were added during the year.

"The high level of bid acceptances among existing members is what is driving growth in lending," Pelle explains. If the largest municipalities in the major urban areas were also to become members, this would likely entail considerable new lending.

Market share continues to increase

Kommuninvest's market share is growing, both in relation to customers' total borrowing and to overall borrowing within the local government sector. Three years ago, the share of customers' borrowing amounted to 56 percent and, in the sector as a whole, 30 percent. These shares rose to 65 and 44 percent respectively in 2011.

According to Kommuninvest's calculations, the banks' lending to the local government sector has decreased by nearly SEK 50 billion over the past three years. One of the foremost causes is the new financial regulations – Basel III – that are gradually to be intro-

duced between 2013 and 2018. The new rules provide a global foundation for a more stable financial system in the future, requiring that banks and other financial institutions hold more and better capital than previously. New, increased liquidity requirements are also imposed.

"In the long term, it will not be sustainable for the banks to lend to local government borrowers who have better creditworthiness than the banks themselves," Pelle explains. "It is more efficient for the local government authorities to borrow directly, either through Kommuninvest or by raising direct loans of their own on the capital market via bonds and commercial papers."

New competitive scenario

The competitive scenario is changing as the banks, rather than lending funds to the local government authorities, seek to arrange their financing directly in the fixed-income market. Municipalities and county councils will increasingly assess Kommuninvest in relation to their own borrowing programmes. In practice, however, this is mainly an option for the largest local government borrowers due to the large borrowing volumes required. For most, if not all, local government borrowers, borrowing via Kommuninvest represents the most cost-efficient alternative, since proprietary borrowing programmes are associated with considerable overhead costs. Furthermore, if many borrowers choose to borrow via Kommuninvest, the liquidity in Kommuninvest's outstanding bonds will improve. In the longer term this decreases Kommuninvest's borrowing costs and thus the interest that the local government authorities must pay.

Kommuninvest's product portfolio consists of five principal loan products adapted to the needs of the local government sector.

Kommuninvest's lending products

- KI interest. Variable interest (interest set daily), with capital tied up for 60 days.
- Stibor until further notice. Fixed interest for three or six months, with capital tied up for three or six months.
- 3 m Stibor. Fixed interest for three months, with capital tied up for up to 20 years. Option of selecting a different Stibor period.
- Fixed interest. Fixed interest for optional period, with capital tied up for up to 20 years.
- Lending against Swedish local government bonds, matching the maturities of the bonds.

A major swing took place in the lending portfolio in 2011 as Kommuninvest's customers chose to shift from short to longer-term financing. The average period for which capital was tied up rose from 1.4 years to 1.8 years over the year.

Local government authorities should tie capital up longer

At Kommuninvest, this trend has been warmly received. "For several years, we have argued that the sector as a whole needs longer-term financing to correspond better to the long-term nature of local government operations," says Pelle. The use of forward starts, which entail the lender and borrower signing an agreement on future financing in advance and on fixed terms, has increased. "Forward starts have grown increasingly popular. They are particularly suitable when you want to lock in a low interest level but currently have no loans reaching maturity."

Of Kommuninvest's overall lending, municipalities and county councils represented 44 (38) percent at the end of 2011. Local government-owned corporations' share of lending was 56 (61) percent, with municipal housing companies accounting for 32 (39) percent. The proportion of loans with capital tied up for at least one year was 47 (46) percent.

Renewed focus on customers' needs

In 2011, Lending and Advisory Services changed name to the Lending Group. "We want this change of name to signal to our customers that our principal task is to be there to help them with all of

"A good advisor is familiar with the customer's business and generates a relationship that supports the customer's day-to-day operations."

their lending requirements; to help them take the right loan at the lowest possible cost," says Pelle.

An important priority for the Lending Group is to get customers to perceive Kommuninvest as a co-party rather than a counterparty on financing matters. "Many who make the decision to apply for membership in Kommuninvest do so to gain access to an additional source of financing – and that is of course sufficient. But membership also means becoming a part-owner in the Kommuninvest Cooperative Society. The fact that we are owned by our customers and exist solely for them distinguishes us from other actors," Pelle explains.

The recipe entails transferring to a more customer-steered organisation in which financial advisors, rather than being responsible for a particular region,



"The advisory role is not only about providing customers with answers. It is often equally important to formulate the question behind the answer – to stimulate thought and reflection."

Sofia Frändberg,
financial advisor

are responsible for a group of customers with similar needs. "We will introduce several advisors to customers and, to a greater extent, allow them to choose who they want to work with. It must be possible for customers to access the best possible expertise for their needs." After several years of strong growth in terms both of numbers of new members and lending volumes, the objective is also to free up time for more proactive work with customers.

Advisory expertise increasingly important

"Among other things, the goal is to get to know customers' needs better and to provide them with increasingly tailored financing solutions," says Pelle. He points out that advisory services focus on structural issues shared by the entire sector rather than on advice regarding the situation of individual borrowers. "Arranging a good financing structure for a combined power and heating plant is completely different from financing municipal property holdings."

Sofia Frändberg, who has been working as a financial advisor since 2000, agrees. "Demands on advisory expertise are increasing, regardless of the customer's size or the composition of the debt portfolio."

According to Sofia, the advisory role is not only about providing customers with answers. "It is often equally important to formulate the question behind the answer, to stimulate thought and reflection."

In Sofia's view a good advisor must accept a degree of discomfort in certain situations. "You can't build a strong relationship by simply agreeing and never questioning. In the long term, I believe you gain the customer's trust by building a relationship based on mutual respect and a constructive dialogue."

How Swedish local government authorities borrow

The local government sector constitutes a significant part of the public sector and is responsible for a large proportion of community services at local and regional level. The municipalities and county councils themselves determine how they should manage their tasks and how they should allocate their resources. A considerable proportion of operations are financed through the authorities' own tax levies.

Duties

Responsibility for public operations in Sweden is divided between the central government and the local government sector. The state is responsible for national commitments, such as infrastructure and the judicial system, while the local government sector is responsible for local and regional commitments. The municipalities are responsible for social care, schooling, waste and sanitation, water and sewage and the emergency services, for example. The principal task of the county councils is to manage health and medical care.

The local government sector is important to the development of the economy, as it accounts for 70 percent of public consumption expenditure and 20 percent of GDP. Including the municipal companies, the sector is responsible for more than 25 percent of the total number of people employed in Sweden.

Local self-government

In accordance with the Swedish principle of local self-government, the municipalities and county councils themselves determine how they should manage their tasks and how they should allocate their resources. Municipalities and county councils have the right to levy taxes and also to decide how high these should be.

Tax income accounts for about 70 percent of the municipalities' and county councils' total rev-

enues. The special status of the local government authorities in the Swedish constitution and their right to levy taxes means that municipalities and county councils cannot be declared bankrupt and cannot cease to exist other than by merging.

Borrowing requirements and forms of financing

The total external borrowing of the municipalities and county councils, including their municipally owned corporations, amounted to SEK 377 billion at the end of 2011. Each municipality or county council determines itself how it wants to finance its operations and has access to three principal forms of financing: borrowing through Kommuninvest, borrowing through the banking sector and direct borrowing on the capital market.

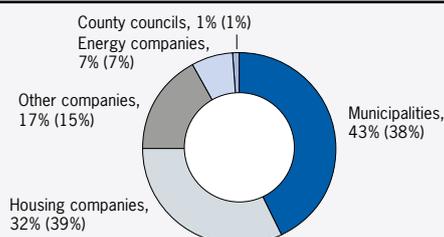
Kommuninvest is the largest individual lender by a broad margin and, at the end of 2011, accounted for 44 percent of local government loan financing according to Kommuninvest's calculations. Borrowing via the bank sector accounted for 45 percent and direct borrowing through the authorities' own bond and commercial paper programmes accounted for 11 percent.

Increasingly, the financing of the local government authorities is shifting towards Kommuninvest. One indication that Kommuninvest offers the most competitive financing solution is the 91 percent bid-acceptance rate achieved in 2011.

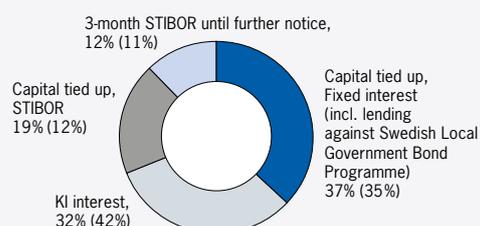
These changes are partly driven by more stringent requirements regarding the banks' capital and liquidity and partly by the measures taken by Kommuninvest to build a competitive local government financing institute. In other countries too, it is becoming more common for the local government sector to assume increasing responsibility for its own financing. Local government financing institutes of the type represented by Kommuninvest have taken shape, or are in the process of taking shape, in France, New Zealand and the UK.

Kommuninvest's lending in 2011

Lending by borrower category



Lending by loan product



Landskrona Energi:

“Lowest price, professional service”

From 1 January 2011, the southern Swedish municipality of Landskrona has operated its production and distribution of electricity and district heating, and its urban broadband distribution network as a company.

“Incorporation facilitates major key investments in energy production,” explains Björn O Persson, Chairman of the Board at Landskrona Energi. He considers it a natural step and says that most other Swedish municipalities have already implemented it.

Building of the new combined heat and power plant began in 2010 and will be completed in 2012. The expansion renews and extends the basic capacity of the district heating network. The effective output of the plant will be 25 MW of heat and 7 MW of green electricity, covering the heating needs of 9,000 villas and the household electricity needs of 10,000 villas.

Björn O Persson is pleased that the investment contributes to a more long-term sustainable energy supply in the municipality, with heating production that is almost 100 percent free of fossil fuels. “This is Landskrona’s most important environmental investment in decades.”

The combined heat and power plant entails an investment of nearly SEK 600 million. According to Landskrona Energi’s Finance Manager, Natascha Parnefjord Gustafsson, SEK 465 million has been borrowed to date. Since the Municipality of Landskrona is a member of Kommuninvest, the energy company has the opportunity to request financing bids from Kommuninvest. “All borrowing is subject to competition but Kommuninvest usually offers the lowest price. In addition, its processing is fast and professional.”

Natascha Parnefjord Gustafsson explains that the company’s finance policy is designed to enable it to secure low financing costs while safeguarding payment capacity in both the short and long term. “We must always balance up our choice of fixed interest term and maturity structure. Naturally, it is important to have a financial partner that understands our operations and can give competent support in the decision-making process.”

Björn O Persson,
Chairman of the Board and
Natascha Parnefjord Gustafsson,
Finance Manager





Municipality of Tidaholm:

“Lower borrowing costs are most welcome.”

It is not particularly common for new schools to be built in rural municipalities in Sweden. An exception is the Municipality of Tidaholm where the building of the Nya Forsenskolan School is the largest project undertaken in many years. When the school is completed ahead of the 2012 autumn term, designed according to the vision of an open and inspiring learning environment, it will accommodate 550 pupils from pre-school through to grade nine. The ambition is for the school to be structured around the principle of the small school within the large school and with a layout that is full of clever solutions.

“All of the political parties support the investment we are making here,” says Curt Gustavsson, Chairman of the City Executive Committee, who leads this municipality of some 12,600 inhabitants and 1,100 companies in western Sweden. Tidaholm’s most famous brands are kitchen manufacturer Marbodal and match producer Swedish Match.

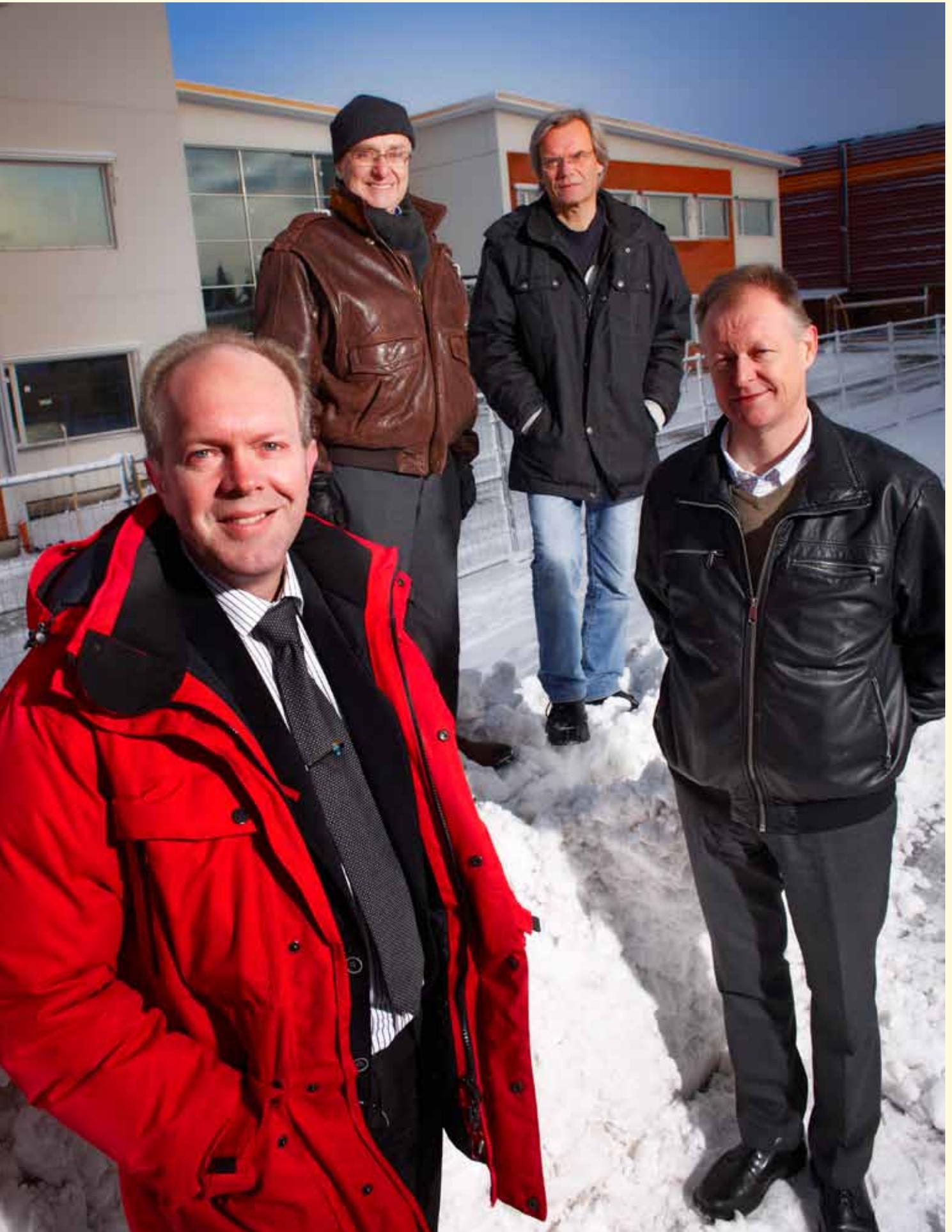
The investment in the Forsenskolan School, which is estimated at some SEK 150 million, gave the municipality cause to review its financing opportunities. Finance Manager Göran Andersson explains that, prior to this investment, the municipality had not needed to borrow money for many years. “Following the 2008/09 financial crisis, the capital market looks completely different. Since we sought to finance the school entirely through loans, it was important to secure the best possible financing terms.”

Having studied the matter, the Municipality of Tidaholm decided to apply for membership in Kommuninvest and became member 259 in 2010. In the ensuing financial procurement process, Kommuninvest emerged as the winner. “Financing through Kommuninvest was at least 30 basis points lower than the second-lowest bid. That meant an annual interest saving of at least SEK 450,000, which is of course most welcome,” says Göran Andersson.

Göran Andersson says that the Municipality of Tidaholm benefits from its membership both through lower financing costs, as well as through access to advisory services. “It is important to keep up-to-date with the situation in the credit market and current issues and Kommuninvest provides good support there.”

Harald Lundkvist, Manager – Children and Education
Curt Gustavsson, Chairman of the City Executive Committee
Göran Andersson, Finance Manager
Kjell Jonsson, Technical Manager







Kristianstad Arena.
The Municipality of Kristianstad has been a member of the Kommuninvest Cooperative Society since 1994.

Attractive offering in turbulent times

Kommuninvest finances its lending to the local government sector through short and long-term borrowing programmes on national and international capital markets. Stability is enhanced by spreading borrowing across various markets and different types of financial instruments. In 2011, Kommuninvest's long-term borrowing totalled SEK 85 billion.



"Kommuninvest's situation has been more straightforward than that of many others in the market," says Anders Gånge, Head of Funding and Treasury at Kommuninvest, of 2011. "We are perceived as a solid and secure borrower and the fact that we are growing for the right reasons is appreciated."

The year 2011 was one in which uncertainty in the world's financial markets never ended. A deteriorating outlook for the global economy, frequent new sources of Eurozone concerns and US budget discussions contributed to a very high risk aversion, causing difficulties for all market participants.

"Timing has been more important than it has been for a long time," says Anders Gånge, referring to the rapid fluctuations that caused some foreign borrowing markets to cease functioning at very short notice. "In general, however, we have benefited from the increasing flight to quality as investors shun anything perceived as risky and seek to invest only in the most secure alternatives."

Diversification is everything

Anders says he is satisfied with a number of aspects of 2011. "First and foremost is of course the fact that we did not experience any financing problems, despite the highly volatile market. We have had very good price levels in our short-term borrowing and seen record interest in our issues in the Japanese market. We have also progressed with our Swedish Benchmark Bond Programme, launching two new maturities there."

Kommuninvest's borrowing strategy builds on spreading borrowing between different markets. According to Anders "diversification" remains the key term for all issuers. He is pleased that Kommuninvest has access to so many opportunities for borrowing.

Kommuninvest's largest borrowing programmes

- Swedish Local Government Bond Programme, a medium-term benchmark programme in SEK for maturities of more than one year, normally between one and ten years. There is no framework amount for the benchmark programme.
- EMTN programme (Euro Medium Term Note),

a medium-term bond programme for terms of between one and 30 years and with a framework of EUR 20 billion.

- Euro-Commercial Paper Programme (ECP), a short-term borrowing programme for maturities of one to 364 days and with a framework of EUR 5 billion.
- Swedish Commercial Paper Programme, a short-term borrowing programme in SEK. For maturities of one to 364 days and with a framework of SEK 50 billion.

Despite the favourable terms, particularly in its short-term borrowing, Kommuninvest decided towards the end of 2011 to slow its borrowing in that area. According to Anders, one of the reasons was that the liquidity reserve was already sufficient. "However, we also need to match borrowing terms against lending terms and since Kommuninvest's customers are increasingly borrowing long-term, we need to adjust our operations to that."

Focus on liquidity

Anders explains that there has been an increased focus on liquidity issues during the year, both in terms of the liquidity reserve and the daily management of liquidity. "The danger of encountering liquidity difficulties

"In general, we have benefited from the increasing flight to quality as investors shun anything perceived as risky and seek to invest only in the most secure alternatives."

was clearer to everyone and an aspect that we needed to take into account. Despite these disturbances, we were always able to find the financing we sought."

Throughout 2011, the liquidity reserve was maintained at a high level. "The liquidity reserve is the key to our being able to serve our customers even through very difficult financing conditions. Even if the financial markets were to be closed, we should be able to meet our customers' normal financing needs over the next six months." According to Kommuninvest's guidelines, the liquidity reserve shall amount to between 20 and 40 percent of lending volumes.

Yield curves in three currencies

Most of Kommuninvest's borrowing takes place in the form of issued bonds (for terms of over 1 year), com-

mercial paper programmes (for terms of less than 1 year) and direct loan financing. In certain key currencies – SEK, AUD and USD – the objective is to establish distinct yield curves, that is, for there always to be bonds of different maturities outstanding. “We have begun to build yield curves in all of these currencies – and that process is continuing,” Anders explains. The next stage is to issue bonds in the US market using 144A documentation. “We will then also be accessible to domestic American institutional investors,” says Anders, adding that this is likely to take place at some point during the second half of 2012. Rule 144A of the US Securities Act makes it simpler for foreign borrowers to operate in the US market.

Kommuninvest has prioritised foreign borrowing markets for a long time but since 2010 efforts have been made to achieve a more even distribution between domestic and international borrowing. The long-term target is for half of the borrowing to be secured in Sweden, principally through Kommuninvest’s Swedish Benchmark Bond Programme. Its yield curve currently consists of four different bonds that mature between 2012 and 2017.

Nurturing the borrowing programmes

“We are really pleased with the Swedish Benchmark Bond Programme,” says Anders. “It establishes a direct channel to the fixed-income market for Kommuninvest’s customers, allowing them to borrow at the Programme’s existing maturities knowing in advance roughly what it will cost.”

Anders explains that Kommuninvest is nurturing the programme actively. “We avoid issuing if it could hurt pricing.” The reason is that Kommuninvest has the opportunity to borrow in other markets if conditions in Sweden temporarily worsen.

One disappointment, however, is the Programme’s growing pricing spread relative to Swedish government securities, which is partly an effect of the debt

“The liquidity reserve is the key to our being able to serve our customers even through very difficult financing conditions.”

crisis and investors’ flight to the most liquid alternatives. “We feel secure that the trend will turn as future regulations bring clarity and more foreign investors become aware of us when they seek to position themselves for changes of value in the SEK.” A large proportion of the bonds are already owned by foreign investors.

Anders stresses that spreads relative to mortgage bonds have not changed and that Kommuninvest’s bonds, in-line with the difference in credit quality, have a lower pricing than mortgage bonds.



“We are included as approved counterparty in some of the world’s most prestigious lists, such as those of the central banks in the world’s major growth countries,” says Carl-Henrik Arosenius, Head of Funding at Kommuninvest. “During 2011, we travelled more than we have for a long time, meeting investors in countries including Brazil, Peru and Uruguay.”

Japan is the largest individual borrowing market

At the end of 2011, there was a total of SEK 38 billion outstanding in the Swedish bond programme. Only borrowing on the Japanese market was greater.

Carl-Henrik Arosenius, who as Kommuninvest’s Head of Funding, travels extensively to international

“Investors value the fact that our rising borrowing volumes are basically driven by the growing number of members and our gradually increasing share of existing members’ borrowing.”

borrowing markets, explains that the Japanese market recovered remarkably quickly following the earthquake and tsunami disaster in March.

“The decline in Nikkei indexes has generated considerable demand for alternative investments. Volumes in our key Japanese instruments rose by about 50 percent in 2011 compared with 2010.”

A large proportion of Japanese borrowing involves structured products. “In all of our borrowing markets, we are able to manage a broad range of structured products, with exposure to equities and currencies as well as raw materials,” says Carl-Henrik, stressing that the capacity to adapt to investors’ wishes is important in borrowing contexts.

Included in key counterparty lists

Over the year, the borrowing team worked intensively to develop and nurture relations with institutional investors, requiring considerably more days of travel than in previous years. “We met major investors in Brazil, Peru, Singapore and Uruguay, to name but a few.”

Carl-Henrik says that several new investors have now included Kommuninvest in their limit lists, that is, their lists of approved counterparties. “We are included in some of the most prestigious lists, such as the central bank lists in the world’s major growth countries.”

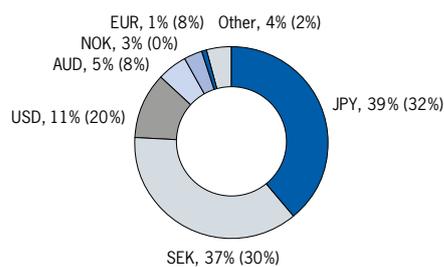
Investors appreciate Kommuninvest’s growth be-

ing based on sound principles and driven by a competitive offering rather than acquisitions or risky expansion. “They value the fact that our rising borrowing volumes are basically driven by the growing number of members and our gradually increasing share of existing members’ borrowing.”

According to Anders Gänge, it was particularly important in 2011 to retain positions in counterparty lists, since revisions are commonplace. “Investor discussions have often dealt with Kommuninvest as a credit risk. We feel secure here, because we know that our focus and guarantee structure allow us to offer precisely what investors are looking for.”

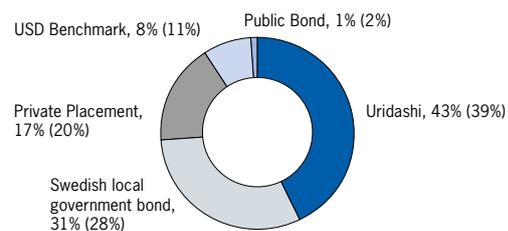
There has also been some discussion about the liquidity reserve, which, according to Anders, has a pronounced low-risk profile. Two-thirds of the portfolio have an AAA rating and exposures to Sweden, Germany and Finland accounted for 73 percent of the total at the end of the year.

Borrowing per currency, 2011
(excluding commercial paper borrowing)



Source: Kommuninvest

Borrowing per programme, 2011
(excluding commercial paper borrowing)



Source: Kommuninvest

Nordea:

“Attractive alternative to government securities.”

Anette Eineljung is responsible for fixed-income management at the pan-Nordic bank Nordea. Anette and five colleagues manage assets totalling some SEK 120 billion in 22 funds and slightly more than 30 discretionary mandates for customers. This makes Nordea one of Sweden's largest fixed-income managers.

“We have invested in Kommuninvest's securities for some time. Since our primary task is to deliver a stable return exceeding our benchmark index, we focus closely on risk-adjusted return. Kommuninvest's securities are an attractive alternative, particularly compared with government securities.”

Anette explains that Nordea treats Kommuninvest's securities as a sovereign risk although de-facto they are not government securities. “We are supported in this by the announcement made by the Swedish Financial Supervisory Authority in June 2010.”

Consequently, the relative pricing of Kommuninvest's securities compared with government securities, known as the relative spread, is often a decisive factor in investment decisions. With a relative spread exceeding 100 basis points for five-year securities, Anette considers the investment conditions to be favourable.

“In 2011, the relative spread increasingly widened due to the European debt crisis.” The hunt for the safest investments has resulted in high demand for Swedish government securities, which has depressed the return and increased the discrepancy compared, for example, with Kommuninvest's securities and secured bonds. “We find the spread favourable and our mutual funds have invested in these securities.”

It would be positive if additional foreign investors were to become aware of high-quality non-government securities offering good liquidity and possibilities to access functioning second-hand markets and repo facilities. “As foreign fixed-income investors fleeing the euro search for Swedish alternatives, government securities are the only option when everyone wants optimum liquidity. But that causes people to miss investments such as Kommuninvest's bonds, which entail a sovereign risk while offering a more attractive return.”

Nordea's Swedish fixed income management team:
Anders Eriksson, Johan Fredriksson,
Anders Burholt, Anette Eineljung (manager),
Per-Erik Grahn and Niclas Svennberg.





HSBC:

“Great opportunities for Kommuninvest.”



Ulrik Ross, Global Head of Public Sector Debt Capital Markets, HSBC

Ulrik Ross, the Global Head of Public Sector Debt Capital Markets at HSBC, has followed Kommuninvest since he established its inaugural international debt programme (EMTN-programme) back in 2001. “Over the course of the past decade, Kommuninvest has constantly regenerated itself, pushing efficient financing solutions and firmly establishing itself as a top tier international borrower. I see significant potential for Kommuninvest to thrive in the new financial landscape.”

HSBC is one of the world’s leading public sector investment banks having done business across 23 currencies for 110 public sector clients in 2011, more than any other bank. Ulrik Ross describes the current market as deeply dislocated. Issuers in peripheral Europe and other challenged countries, have considerable economic difficulties. “Stable regions and issuers, like the Nordic funding agencies, are seen as safe havens and benefit from the flight to quality.”

Ulrik Ross says the financial industry is in a transformational phase, with banks facing a number of challenges, of both a regulatory and structural nature. They all point banks in one direction, he says, which is one of increased capital requirements. The result of this will most likely lead to more efficient use of balance sheets and to some extent a reduction of non-core lending activities.

“Funding longer-dated durations and low-margin business like the public sector is no longer as attractive, which means local governments particularly in a challenged Europe need to rethink their financing strategies.”

According to Ulrik Ross, much can be learned by looking at Kommuninvest and its fellow funding agencies in the Nordic countries. “France has already announced that it is contemplating a financing model built on a Kommuninvest-type structure and I know that other major European countries are contemplating similar exercises.”

Ulrik Ross believes there is significant opportunity for Kommuninvest to develop further in the current risk climate. “Kommuninvest’s growth story so far speaks its own language, both in terms of owners and lending volumes. I see it more as a question of what the stakeholders want and what Kommuninvest’s public policy role should be. There is tremendous investor demand for Kommuninvest-type issuers.”

Kommuninvest's creditworthiness

Kommuninvest has the highest possible credit rating – AAA/Aaa – from Standard & Poor's and Moody's respectively. Among other factors, these credit ratings are explained by Kommuninvest's role as Sweden's local government debt office, the quality of Kommuninvest's assets and the joint and several guarantee undertaken by more than 260 municipalities and county councils.

Strong local government financing institute

Kommuninvest is tasked with financing Swedish municipalities and county councils and their majority-owned companies. Kommuninvest is the biggest lender in the local government sector, accounting for 44 percent of the sector's external borrowing. At the close of 2011, 259 municipalities and eight county councils were members of Kommuninvest and thus had the right to borrow from Kommuninvest. Kommuninvest accounts for two-thirds of its members' external financing and for about 90 percent of their new borrowing.

Asset quality

Kommuninvest's services are available solely to members of the Kommuninvest Cooperative Society and, provided a local government surety, members' majority-owned companies. This means that all of Kommuninvest's lending is to the local government sector. From the perspective of capital adequacy, lending to the local government sector has the lowest risk weight; 0 percent. Kommuninvest's other assets consist mainly of a liquidity reserve, a portfolio of highly liquid securities that can be used to provide Kommuninvest's customers with financing even through periods of strained market conditions. A large portion of the liquidity reserve, about 60 percent, consists of assets that can be pledged to the Swedish central bank (the Riksbank).

Joint and several guarantee by owners

The members of the Kommuninvest Cooperative Society provide a joint and several guarantee for all of the commitments entered into by the credit market company Kommuninvest i Sverige AB. This means that Kommuninvest's creditworthiness ultimately reflects the collective creditworthiness of its members.

No Swedish municipality or county council has ever defaulted on an agreement entered with a creditor. The local government sector's creditworthiness is attributable to a number of factors:

- A municipality or county council cannot be declared bankrupt or otherwise cease to exist other than by merging. Moreover, it is forbidden to pledge local government property as security for a loan, which means that municipalities and county councils are liable for all obligations they enter into, with all their tax power and their total assets.
- Municipalities and county councils in Sweden have a constitutional right to levy taxes for carrying out their remit. The tax base is based on the residents' income, and each municipality

and county council sets its own tax rate. Local self-government is strong in Sweden.

- A strong system for equalising local government finances contributes to all municipalities and county councils enjoying equal conditions to provide services for their residents.
- High demands are placed on the economies of the municipalities and county councils in Sweden. The balance requirement means that the budget normally has to be set up so that income exceeds expenses. If new expenses are introduced during the budget year, the decision must also contain details of how the expenditure is to be funded. If the result is a deficit, the council must, after looking into the balanced budget requirement, adopt an action plan for restoring a positive result within three years. Many municipalities apply an annual surplus target of 2 percent.
- The financing principle means that the government cannot impose new obligations on municipalities or county councils without presenting a financing solution.

Further information can be found in the brochure "Creditworthiness of the local government sector" that can be downloaded from the Kommuninvest website: www.kommuninvest.org

ASSIGNMENT OF RESPONSIBILITIES WITHIN THE PUBLIC SECTOR	
Local government sector 70% of public expenditure	Swedish central government 30% of public expenditure
LOCAL/REGIONAL COMMITMENTS	NATIONAL COMMITMENTS
Social care	Universities
Health care	Judicial system
Schooling	Environment
Public transport	Armed forces
Waste disposal	Infrastructure
etc.	etc.

BORROWING IN THE PUBLIC SECTOR	
Local government sector	Swedish central government
DEBT SEK 377 billion	DEBT SEK 1,108 billion
Borrowing via Kommuninvest (member organisation), banks and proprietary programmes	Borrowing via Swedish National Debt Office (central government authority)

Clear individual responsibility with supportive leadership

Kommuninvest is a highly specialised finance organisation that operates both in the Swedish local government sector and in global financial markets. This imposes particular demands on employees' competence, values and corporate culture. Commitment and good employeeship are important elements in the success formula.

"We need top-level skills in all positions within the company," says Kommuninvest's HR Manager Michael Jansson, who has, on average, recruited one new colleague every sixth week since he himself began working for the company in 2008. Finding the right expertise can be a challenge for a highly specialised finance organisation based outside Stockholm. "The relatively small scale of our organisation and the challenging tasks we offer are, however, a strength in most recruitment processes." According to Michael, a high level of employee competence is a key factor in achieving the objective of providing most of the local government sector's external loan financing in the long term. At the same time, it is important to maintain and develop efficiency.

"Naturally, an organisation growing at this pace is subject to stresses. We need to manage our growth well to maintain quality in everything we do while attending to the well-being of our personnel." Michael explains that Kommuninvest therefore invests extensively in both employee and management development, as well as in operational planning and control.

Corporate culture and values in focus

One aspect that differentiates Kommuninvest from many other financial sector employers is its socially beneficial character. One of Kommuninvest's main tasks is to contribute to increased welfare in Sweden



"We are an idea-based finance organisation and entirely dependent on competent and motivated employees," says Michael Jansson, Head of Human Resources at Kommuninvest. "Commitment and good employeeship, with an emphasis on individual responsibility, are cornerstones of our personnel philosophy."

through stable and cost-effective financing for the local government sector. "Our employees come from different backgrounds and from widely diverse areas of society. Our success builds on our being able to derive benefit from this diversity in bringing together the fast-moving and innovative world of finance and the broad scope of the local government sector."

Continuous work with corporate culture and common values is a prerequisite, particularly since close to a third of the workforce has been with Kommuninvest for less than three years. "Our work is easier

than in large organisations, since we can relatively easily gather all of our employees, either here in Örebro or at a joint conference, to ensure that everyone is on board regarding our objectives and values." It is particularly important that the company's core values and the values of its employees form a natural component and an integrated part of day-to-day internal communications.

Kommuninvest's employees are its most important asset and are crucial in achieving the company's strategic objectives. "We work a great deal with issues of leadership and employee responsibility," Michael explains. In 2011, all employees participated in the development of a new code of conduct, which has included the clarification of core values and of stakeholder categories and their expectations.

New model for employee development interviews

Michael tells how a new model for employee development interviews was also launched in 2011. This places greater emphasis on employees' responsibilities. "We have committed employees who are willing and able to assume responsibility for their own development. For us as employers, it's a matter of making use of the skills of the individual." In concrete terms, this entails employee development interviews leading to the employee being responsible for proposing a plan of action including a competency development plan. "Ensuring that you are always employable and never outpaced by developments is naturally challenging for the individual employee but we believe this approach yields better results."

The manager's role is to approve employees' plans of action and to ensure that these agree with the company's overall development needs. For Kommuninvest's managers to be able to implement the new model for employee development interviews, they have been offered special training as part of a long-term management programme focusing on leadership, professional roles and group dynamics. "The programme concluded in 2011 with an 'exam'. All of our managers have now been given a package of tools to support the new model for employee development interviews," Michael says.

Leadership development

Modern personnel work requires the continuous development of leadership skills. Michael Jansson explains that the principal task for a leader at Kommuninvest is to stimulate employees to exercise their full potential. The assumption of personal responsi-



"It is a privilege to work for a company that works for the benefit of society," says Maria Viimne, Deputy CEO and responsible for Kommuninvest's brand. "Being able to work both in the local government sector as well as in the global financial markets is fascinating."

bility, both in one's own professional role as well as for the working situation of others and network participation is also important.

"We know that employees want to be part of a whole and to be able to affect the company's development," Michael says. "We want to give them the opportunity to establish a career within the company and to be able to develop in a specialist or management role."

Kommuninvest regularly assesses leadership within the company. "During 2011, under the direction of an external partner, nearly a third of our employees participated in in-depth interviews to assess leadership within the company," Michael explains.

At the end of 2011, Kommuninvest had 59 (53) employees, of whom 24 (23) were women and 35 (30) were men. Recruitments have been made throughout the company, including the Lending Group, which was reinforced with a number of specialists with the purpose of developing the customer offering.

Most Kommuninvest employees have a university-level education specialising in finance and/or law. At the end of the year, the average age among Kommuninvest's employees was 42.0 (42.0), with a range between 20 (24) and 67 (66) years. In addition to compulsory training programmes required for everyone within the company, Kommuninvest also offers longer specialist and leadership courses for a number of employees.

Support for a balanced and healthy lifestyle

Absence due to illness for the year was 1.2 (1.1) percent. Kommuninvest offers strong support for employees in the event of sickness and to stimulate a balance in their working lives and a healthier lifestyle. Kommuninvest is linked to the occupational health service and thus offers regular health checks. In 2011, all employees were offered the opportunity to undergo a health check.

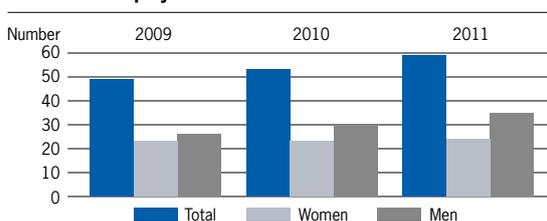
Michael Jansson describes salary levels at Kommuninvest as competitive although not market-leading. "Our regular surveys of comparable companies show that we are at the 'right' level. I would also like to stress that differences in salary levels should be attributable solely to objective criteria. Consequently, I am very pleased that the salary survey we carried out in 2011 showed that we have gender-neutral salaries." The survey was carried out as part of Kommuninvest's diversity planning.

Increased social commitment

Maintaining a strong brand is important to the ability to recruit new employees and to retaining existing ones. "With that ambition, in 2011, we initiated the 'Kommuninvest in Society' venture, in which we manifest our social commitment in various ways, particularly at the local level," says Maria Viimne, Deputy CEO and responsible for Kommuninvest's brand.

Partnership discussions have been initiated with the University of Örebro. The purpose is to gain visibility in one of Kommuninvest's natural recruitment environments and to aid the development of local government financing through access to new knowledge and skills. "It is our hope that a partnership will contribute to increased knowledge and expertise focusing on financing and the local government balance sheet. We also want to generate greater awareness of Kommuninvest among students and within the academic sphere," Maria Viimne concludes.

Number of employees



Employee statistics

	2009	2010	2011
Total number of employees,	49	53	59
of whom women	23	23	24
of whom men	26	30	35
Staff turnover, %	-	4.0	5.4
Sick leave, %	1.0	1.1	1.2
Average age	40.8	42.0	42.0

Clear advantages but also a defined responsibility

Kommuninvest's operations emerged from the idea of voluntary collaboration between municipalities and county councils to secure long-term stable and cost-effective financing. This collaboration takes place through the Kommuninvest Cooperative Society, which owns the credit market company, Kommuninvest i Sverige AB. At the end of 2011, Kommuninvest had 267 members, of which 259 were municipalities and eight were county councils.



"The greater the number of municipalities and county councils that become involved in collaboration, the greater the ability of Kommuninvest to offer its members favourable terms," says Thomas Åkelius, Secretary of the Board of Directors of the Kommuninvest Cooperative Society and Head of Executive Functions at Kommuninvest i Sverige AB. "On all of the key matters on which we have worked over recent years, we had strong support from the members of Kommuninvest."

"The Kommuninvest cooperation rests on the foundation of the simple idea that Swedish municipalities and county councils can obtain better loan terms together than individually," explains Thomas Åkelius, Head of Executive Functions at Kommuninvest i Sverige AB. As the secretary of the Kommuninvest Cooperative Society, Thomas has a particular responsibility for membership issues.

All operations are conducted through Kommuninvest i Sverige AB whose principal task is to coordinate individual municipalities' and county councils' borrowing volumes to enhance efficiency. "But we also provide a range of services to members, including advisory services and tools developed in-house by the company to support financial operations; these help to develop and enhance members' financial operations."

Member and owner

Since the members of the Kommuninvest Cooperative Society own Kommuninvest i Sverige AB, they are, as owners, responsible for the operations conducted by the company. This is expressed in particular in the joint and several guarantee signed by each member and covering the credit market company's obligations. The responsibility of the owners has been clarified in recent years as an effect of the altered financial landscape that crystallised in the wake of the financial crisis.

"We have perceived complete support from the members. On all of the key matters on which we have worked over recent years, we have had strong support from the members," says Thomas, referring, among other things, to the raising of a subordinated loan from the members in 2010 and the handling of new agreements on members' responsibilities in 2011.

Membership continues to grow

The number of members has increased each year since the Kommuninvest Cooperative Society was formed, and in 2011 six municipalities and one county council became members. Thomas points out that there are not many potential members left, since slightly more than 85 percent of Swedish municipalities and county councils are already members of Kommuninvest.

"As more municipalities and county councils become involved in the collaboration, Kommuninvest's opportunities increase to offer members favourable terms, develop skills and reduce administration costs," he says.

Efforts to encourage additional county councils to join Kommuninvest are continuing unabated as less than half of the county councils in Sweden are currently members. "We are very pleased that Dalarna County Council chose to become a member in 2011. More should take the same step if they want to cut their borrowing costs and reduce their financing risks."

Member influence is key

For a member organisation with a mission like Kommuninvest's, it is important that current issues are discussed and that a mandate is established for the decisions taken. For this reason, Kommuninvest's management conducts annual member consultations with the political leadership of the member municipalities and county councils and invites local government officials to attend annual finance workshops.

"Interest in both the member consultations and the finance workshops has risen considerably in recent years," says Thomas. More than 400 elected representatives and officials from some 200 of Kommuninvest's members took part in the 2011 member consultations, which were held in 22 locations. This was more than double the number that attended three years earlier. The finance seminars were held in seven locations and attracted 220 participants, which was also a considerable increase compared with previous seminars.

Other significant forums for member influence are the meetings of the Board of the Cooperative Society, where the member authorities are represented by 30 members and deputies, and the Board of the Cooperative Society's Analysis and Finance Committee. Its tasks include preparing applications from municipalities and county councils seeking membership and to monitor the financial status of existing members on an on-going basis. The Annual General Meeting of

the Cooperative Society is Kommuninvest's highest decision-making body.

Active influence on local government finance issues

Thomas Åkelius underscores the importance of Kommuninvest providing the local government sector with a voice on financial matters. "We conduct lobbying work and are active at significant events such as the Almedalen Week." Thomas also mentions Kommuninvest's involvement in international networks such as the ICLC, the International Centre for Local Credit, and EAPB, European Association of Public Banks.

In 2011, in various constellations together with the Swedish Association of Local Authorities and Regions (SALAR), the Swedish Association of Public Housing Companies (SABO) and equivalent companies in other Nordic countries, and within the framework of the EAPB partnership, Kommuninvest has worked to influence the general terms for local government financing. "Among other aspects, this involves local government guarantee fees, the design of the stability fee, the possible introduction of a leverage ratio, as well as rules regarding liquidity buffers for banks and insurance companies." As a basis for Kommuninvest's on-going efforts to enhance efficiency in the

sector's financing, a research project has been initiated to study financing in the sector before, during and after the 2008/2009 financial crisis.

Owner survey

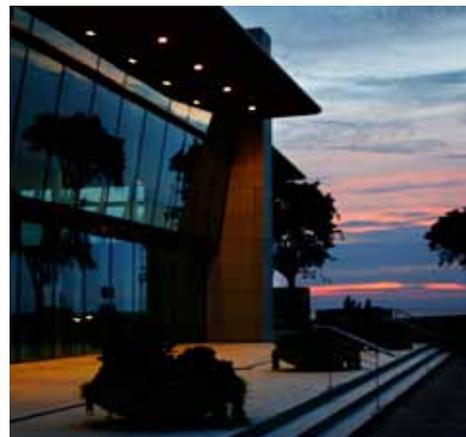
Kommuninvest conducts regular surveys among its owners/members. The most recent survey, carried out in late 2010, showed that members were generally highly satisfied with the collaboration and that Kommuninvest meets their expectations well. The customer satisfaction index was 78 compared with 76 in the preceding survey. The next survey will be carried out in 2012.

Advantages of membership

- Competitive loans.
- Direct access to the fixed-income market in accordance with the terms of Kommuninvest's Swedish Local Government Bond.
- Secure liquidity supply – Kommuninvest can finance its customer's normal needs even if credit markets were to close for an extended period.
- Network and competence development.
- Kommuninvest's principal task is to offer Swedish municipalities and county councils the best possible financing terms.

Important membership events in 2011

- 400 participants in member consultations.
- The Annual General Meeting of the Society adopted an initial resolution regarding the management of future profits.
- The important formal process regarding clear member responsibilities was completed among all members during the year.
- Membership continued to grow with 7 new members.
- The Board of Directors of the Cooperative Society participated in the Almedalen Week of political meetings alongside the Board of Directors of the company.



Municipality of Växjö:

“Secure and inexpensive financing.”

The Municipality of Växjö has been a member of Kommuninvest since 2003. Bo Frank, Chairman of the City Executive Committee, explains the membership application was preceded by a thorough analysis. “Our objective was to gain access to additional sources of borrowing and our officers examined several alternatives, including direct borrowing under our own auspices. We came to the conclusion that membership in Kommuninvest would be beneficial, both by sharpening competitiveness in our procurement procedures and by providing an additional source of financing.”

Kerstin Sundström, Finance Manager for the municipality says they have not had cause to regret their choice. “Kommuninvest represents secure and inexpensive financing and this is naturally important for a municipality that is growing like ours and that has considerable ongoing needs for investment in homes, schools and infrastructure, etc. In today’s financing climate it is also a relief not to need to worry about credit.”

The Municipality of Växjö’s need for efficient financing solutions is considerable – the municipality’s property investments alone amount to SEK 600 million to SEK 700 million annually. Of the total external loan debt of slightly less than SEK 6 billion, more than SEK 5 billion has been raised through Kommuninvest. According to Kerstin Sundström, there are no requirements regarding the minimum number of creditors. “We borrow from the most inexpensive source.”

Most of the loans are raised by the municipality’s wholly-owned companies. Lars Sjökvist, Deputy CEO at Växjö Kommunföretag AB says that what he appreciates most is that the relationship with Kommuninvest works so well in everyday life. “Kommuninvest is a competent partner in discussions and it is easy to get in touch with them to obtain useful advice. We perceive it as a strength that Kommuninvest is able to provide us with financing on favourable terms even in times of uncertainty.”

Lars Sjökvist, Deputy CEO Växjö Kommunföretag AB,
Bo Frank, Chairman of the City Executive Committee and
Kerstin Sundström, Finance Manager, Municipality of Växjö







The new railway station.
The Municipality of Falkenberg has
been a member of the Kommuninvest
Cooperative Society since 1994.

Board of Directors' report

General information about the company

Kommuninvest i Sverige AB ("Kommuninvest") is a wholly owned subsidiary of Kommuninvest Cooperative Society, the members of which are Swedish municipalities and county councils. Kommuninvest is a credit market company and is under the supervision of the Swedish Financial Supervisory Authority. Together with the Kommuninvest Cooperative Society and Kommuninvest Fastighets AB, Kommuninvest forms a financial group of companies.

Kommuninvest is responsible for Swedish municipalities' and county councils' coordinated procurement of financing which contributes to increased financial stability in the local government sector. Kommuninvest is the largest lender to the Swedish local government sector and its total lending at the end of 2011 was SEK 168.1 billion.

Kommuninvest lends solely to the local government sector. Kommuninvest's products and services are only available to municipalities and county councils who are members of the Kommuninvest Cooperative Society and their majority-owned companies. Lending is provided to local government corporations on the condition that the local government authority provides a guarantee.

All members of Kommuninvest Cooperative Society provide an explicit guarantee, in the form of a joint and several guarantee for the benefit of Kommuninvest i Sverige AB. The guarantee arrangement means that Kommuninvest's operations are guaranteed by Swedish municipalities and county councils. The guarantee is strong because Swedish municipalities and county councils cannot be declared bankrupt, nor can they cease to exist other than by merging. Ultimately, Kommuninvest's operations are guaranteed by the local government sector's constitutional right to levy taxes.

The scope of the business is affected mainly by the number of members of the society and their financial needs, along with Kommuninvest's ability to offer good loan terms. In its turn, the latter assumes that Kommuninvest is able to obtain beneficial terms in its own financing on domestic and foreign capital markets.

Market

The European debt crisis has weighed heavily on the financial markets throughout 2011. At the time of writing, the European Central Bank's decision regarding subsidised loans to European banks has, in particular, had the effect of stabilising the markets. However, the downgrades of several European countries' credit ratings and of the credit rating for the European Stability Fund (ESFS) show that the problems are far from over.

Indebtedness in the local government sector corre-

sponds to approximately 11 percent of GDP. Including pension commitments, which are normally recognised outside the balance sheet, indebtedness amounts to about 25 percent of GDP. As a whole, the financial performance of the local government sector was strong in 2010, and 2011 is also expected to yield positive results, despite the uncertain macroeconomic situation.

Kommuninvest's high creditworthiness and its focus on solely financing the local government sector has continued to contribute to the company's attractiveness as a borrower. High demand from all types of investors pervaded 2011.

The Kommuninvest Cooperative Society acquired seven new members during the year and thus had, at the end of the year, 267 (260) members, of which 259 (253) were municipalities and 8 (7) were county councils.

Results

The operating profit (profit before appropriations and taxes) amounted to SEK 396.1 (275.7) million. The operating profit includes unrealised changes in market value of SEK +13.2 (-86.5) million. Operating profit excluding the effect of market value changes was SEK 382.9 (362.2) million. The profit after appropriations and taxes, including unrealised changes in market value, amounted to SEK 300.6 (140.6) million.

Total operating income rose by 43 percent to SEK 636.2 (445.1) million. Operating income includes net interest revenues, commission expenses, net result of financial transactions and other operating income.

Net interest income increased by 33 percent to SEK 572.6 (432.1) million. The increase is partly attributable to an increase in lending volume in nominal terms (actually lent) by 25 percent during the year, and to loans being provided at new, higher margins. In accordance with the owners' directive, increased margins between borrowing and lending are contributing to Kommuninvest's equity increasing as lending volumes increase.

The net result of financial transactions for 2011 was SEK +72.1 (+17.2) million. The buy-back of issued securities and the sale of financial instruments contributed SEK 58.9 (102.5) million to the figures, as recognised in 'Net profit/loss from financial transactions'.

Unrealised changes in market value amounted to SEK +13.2 (-86.5) million and are reported under 'Net profit/loss from financial transactions'. In 2011, Kommuninvest recognised unrealised gains on basis swaps and unrealised losses in the investment portfolio due to the European debt crisis and general trends in the capital markets.

The change in market value in 2010 arose through the strengthened creditworthiness of Kommuninvest's outstanding liabilities and increased margins on Kom-

muninvest's lending. It is Kommuninvest's intention to retain assets in the form of loans and liabilities to maturity. However, investments in interest-bearing securities may be divested in connection with lending although the company has the capacity to retain these to maturity, meaning that unrealised changes in market value need not be realised.

Expenses amounted to SEK 240.1 (169.4) million. The stability fee of SEK 83.6 (41.2) million is included in the reported expenses. This figure rose because only half the fee was levied in 2010. The stability fee accounted for 35 (25) percent of Kommuninvest's total costs.

Excluding the stability fee, costs increased by 22 percent to SEK 156.5 (128.2) million. Growth in lending combined with major changes in the regulatory systems and development of Kommuninvest's national and international borrowing programme makes more stringent demands on the operation and results in higher costs. The cost increase was relatively evenly distributed among payroll expenses, consultancy costs and other expenses.

Financial position

The balance sheet total rose to SEK 234.0 (190.2) billion as a consequence of increased lending and borrowing.

Borrowing

At year-end, borrowing amounted to SEK 222.2 (177.3) billion. Most of Kommuninvest's borrowing takes place in the form of issued bonds (for terms of over 1 year) and commercial paper programmes (for terms of less than 1 year). A smaller part of our borrowing takes place as direct loan financing (bilateral loan agreements with supranational institutions). Kommuninvest acts over terms of between 1 day and 30 years and focuses primarily on financial instruments with fixed or variable interest.

In 2010, Kommuninvest established a Swedish benchmark programme for the continuous issue of bonds, Swedish bond programme. In February 2011, Kommuninvest issued a new 7-year bond in this programme. The issue was fully subscribed for a total of SEK 3.1 billion. In October 2011, a new 3-year bond was issued for a total of SEK 3.0 billion. In total, the Swedish bond programme had SEK 37.6 billion outstanding at the close of 2011. The intention is for the Swedish bond programme to become Kommuninvest's largest borrowing programme, with a volume exceeding SEK 100 billion.

Lending

At the end of the year, Kommuninvest's lending amounted to SEK 168.1 (133.7) billion. In nominal terms, lending was at SEK 165.7 (132.9) billion, an

increase of 25 percent compared with the previous year. The increase is explained by the fact that Kommuninvest is gradually increasing its share of existing customers' borrowing. Kommuninvest's percentage of members' borrowing at year-end was estimated at 65 (54) percent and of the sector as a whole 44 (35) percent. Seven new members joined Kommuninvest in 2011, which also contributed to growth.

Investments

At year-end, Kommuninvest's liquidity reserve amounted to SEK 52.1 (43.3) billion, corresponding to 31 (32) percent of lending volume. According to Kommuninvest's guidelines, the liquidity reserve should amount to between 20 and 40 percent of lending volume. Most of the investments are in securities issued by the Swedish State, state-guaranteed financial institutions within the OECD and banks in the Nordic region. A considerable proportion of the investments are made in assets that can be pledged with the Swedish central bank, the Riksbank. To ensure high liquidity, investments may only be made with counterparties with a credit rating of at least A2 from Moody's and/or A from S&P. Investments may also be made in securities issued by member local governments, taking into account the lending limits applied for them by Kommuninvest.

Kommuninvest has no direct exposure to Greece, Ireland, Italy or Portugal in the investment portfolio. Kommuninvest does have a direct exposure to Spain through two investments of USD 80 million and EUR 50 million, placed with the Instituto de Crédito Oficial, and maturing in January 2013 and July 2013, respectively. The investments have been classified as "available-for-sale financial assets", which means that capital growth is recognised directly against equity and is included in comprehensive income for the year.

Derivatives

Derivatives with positive and negative market value amounted to SEK 13.7 (13.0) billion and SEK 9.4 (10.8) billion, respectively. Derivative contracts are used as risk management instruments to address market risks in operations.

Subordinated liabilities

Subordinated liabilities consist of a perpetual debenture loan from the Kommuninvest Cooperative Society.

Equity – surplus distribution through refunds and interest on capital contributions

By means of a decision by the 2011 Annual General Meeting of the Society and pending confirmation of the decision by the 2012 Annual General Meeting, the Kommuninvest Cooperative Society will, effec-

tive from the 2011 financial year, apply refunds and interest on capital contributions as a format for the distribution of surplus earnings in order to make visible the results of Kommuninvest i Sverige AB to the owners/members of the Kommuninvest Cooperative Society. At the same time, a requirement to make an annual capital contribution, at an amount that shall not exceed the surplus distribution, will be introduced. This means that the owners/members will be able to benefit from the earnings of Kommuninvest i Sverige AB without this negatively affecting the capital base at the same time that the surplus distribution, after tax, can be used to strengthen the capital base in Kommuninvest i Sverige AB.

It is expected that the surplus distribution and the payment of capital contribution, assuming the decision is confirmed at the 2012 Annual General Meeting of the Kommuninvest Cooperative Society, will be made during the first half of 2012, with the effect that the results for 2011 will be reflected in the capital base with a certain delay. When Kommuninvest i Sverige AB distributes profit via group contributions to the Kommuninvest Cooperative Society, equity is reduced by SEK 375 million as at 31 December 2011. The surplus distribution will be returned to Kommuninvest as equity after the Annual General Meeting of the Society in April 2012. After tax is deducted, a total of SEK 276 million will be returned as new capital in Kommuninvest i Sverige AB.

Equity

At the end of 2011, equity amounted to SEK 714.4 (782.8) million following the payment of a Group contribution to the Kommuninvest Cooperative Society. Including the upcoming injection from the Kommuninvest Cooperative Society, to be decided on by the 2012 Annual General Meeting of the Society, equity amounts to SEK 990.4 (782.8) million. In addition to the profit for the year and surplus dividend to Kommuninvest Cooperative Society as stated above, other factors that had an impact on equity were changes in market values for financial assets classified as "available-for-sale financial assets" and effects of investments that were previously reclassified to loans and receivables and which are recognised directly against other comprehensive income (see Equity section on page 58 and Note 26 on page 74).

Share capital

Due to the authorisation given to the Board of Directors by the Annual General Meeting, share capital has increased over the year by SEK 3.9 (18.8) million through the issue of new shares. The purpose is to strengthen the company's financial base by transferring participation capital from new members

of the Society. Such transfers have been carried out regularly as membership has increased. Share capital amounts to SEK 292.4 (288.4) million, distributed over 2,923,850 (2,884,550) shares.

Credit losses

Credit losses totalled SEK 0 (0) million.

Capital adequacy

The capital adequacy quota amounted to 5.71 (10.09). The statutory minimum level is 1.0. The capital adequacy ratio amounted to 45.7 (80.7) percent.

Kommuninvest has also established an internal capital adequacy quota which includes additional scope for risk as a buffer for risks not accounted for in Pillars 1 and 2, see Note 27.

Target fulfilment

Kommuninvest has determined a number of targets for its operations. The growth target envisages lending amounting to at least 70 percent of the local government sector's external loan liabilities in 2015. At the end of the year, the proportion was 44 (35) percent. The stability target is for the capital base to correspond to at least 1 percent of the balance sheet total on a sustainable basis. At the close of 2011, the capital base amounted to 0.81 (0.99) percent of the balance sheet total. If, at 31 December 2011, refunds had been paid and capital invested, in accordance with the above description, the capital base would have amounted to 0.95 (0.99) percent of the balance sheet total.

The efficiency target is that the costs of the operations, excluding the stability fee, should by 2015 amount to at most 0.08 percent of the lending volume on a sustainable basis. In 2011, the costs of operations, excluding the stability fee, amounted to 0.09 (0.10) percent.

Five-year review

See pages 80–81.

Rating

Since April 2002, Kommuninvest has had the highest credit rating Aaa with Moody's, and it has held the highest credit rating AAA with Standard & Poor's since 2006. Moody's and Standard & Poor's maintained a stable outlook for Kommuninvest in 2011.

Member responsibilities

To clarify members' responsibilities beyond the basic joint and several guarantee responsibility, Kommuninvest and the Kommuninvest Cooperative Society have drafted two agreements mapping out these responsibilities. All members took the decision to approve the agreements in 2011. The division of respon-

sibilities is communicated to each member by means of a statement of undertaking. How this statement of undertaking has been calculated on the basis of the company's balance sheet and each member's holding is detailed in Note 3.

Risks and uncertainty factors

In its business, Kommuninvest encounters a number of risks and uncertainty factors which may have an adverse impact on the company's profit, financial position, future prospects or opportunities to attain set targets.

The general development on the capital market, including interest rate development and the liquidity situation, along with the willingness to invest on various markets, may affect the competitive situation and how the competitive advantage of Kommuninvest develops. If Kommuninvest is unable to recruit and retain qualified employees, this may restrict Kommuninvest's competitiveness and opportunities for development.

For a more detailed description of risks and security factors, see the section on risk management on pages 40-46.

Employees and the environment

The number of employees increased by six during the

year, to a total of 59 (53) at year-end. For principles and processes for remuneration and benefits to the management, see Note 7.

Kommuninvest does not conduct any operations requiring a licence under Sweden's Environmental Code. Kommuninvest has an environmental policy that it adopted in earlier years.

Outlook for 2012

The reformed regulatory system within the financial sector, with increasing demands in terms of capital and liquidity, generally entails raised price levels for bank loans to Swedish local government authorities and thus to increased demand for loans from Kommuninvest among both existing and potential customers. It is expected that the increased attractiveness of securities issued by low-risk institutions could continue. Also in 2012, Kommuninvest is expected to be able to have stable growth in lending as more new members join Kommuninvest Cooperative Society and Kommuninvest continues to increase its share of existing members' borrowing. A challenge for the company is to combine growth in lending with achieving the owners' requirement that equity reach a level corresponding to at least 1 percent of the balance sheet total.



Ulricehamn's open-air swimming-bath.
The Municipality of Ulricehamn has
been a member of the Kommuninvest
Cooperative Society since 2008.

Risk management

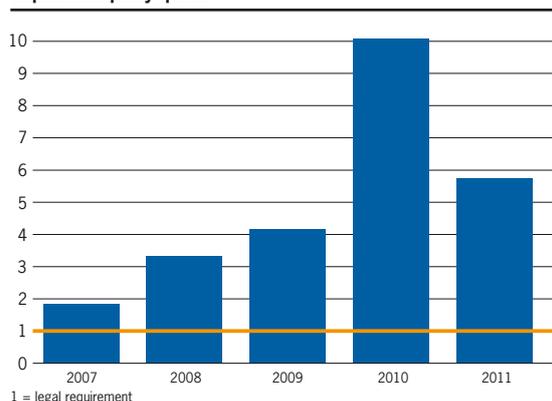
Kommuninvest's risk management is designed to meet the owners' requirement that the level of risk in the operations be kept as low as possible. Among other things, this means that the terms for borrowing and lending shall be equivalent from the risk perspective. Kommuninvest is owned by Swedish municipalities and county councils and is covered by Chapter 2, Section 7 of the Local Government Act prohibiting speculative and risky operations.

Introduction

Kommuninvest is a credit market company that is owned entirely by the Swedish local government sector. Kommuninvest's operations serve solely to support the financial activities of the local government sector, distinguishing it in several key regards from other financial market players.

- Lending is provided exclusively to Swedish municipalities, municipal corporations, county councils or borrowers guaranteed by local government authorities and loans therefore carry a zero risk weight in a capital adequacy perspective.
- The members of Kommuninvest's owner, the Kommuninvest Cooperative Society, are also the Company's customers and are party to a joint and several guarantee supporting all of the Company's obligations.
- Kommuninvest conducts no deposit or active trading operations.
- Kommuninvest has a favourable capital situation. At the end of 2011, the capital adequacy quota, in accordance with Pillar 1, amounted to 5.71 compared with the official requirement of 1.0. At the end of 2011, the capital adequacy ratio amounted to 45.7 percent.

Capital adequacy quota



Risk organisation and responsibility

The Board of Directors sets risk policy and risk limits. The President is responsible for the limits not being exceeded and has delegated responsibility to the business functions within Kommuninvest, that is, the Funding and Treasury department and the Lending Group, to apply the limits pertaining to their respective areas. The Risk and Analysis unit is responsible for continuously checking and implementing ongoing follow-up and analysis of financial risks and reports daily to the President and monthly to the Board of Directors. Risk and Analysis is also responsible for the company's internal capital assessment, including its processes, and for assessing the evaluation methods that are applied. Reports are provided to the Board of Directors and, where necessary, Risk and Analysis proposes changes. The Credit Group functions as a preparatory body in the assessment of new counterparties, new financial instruments and other credit issues requiring decisions by the President. The Credit Group is also responsible for monitoring development of the counterparties and financial instruments used in the company's financial operations. The company's Asset Liability Committee (ALCO) is responsible for preparing matters concerning market risk and liquidity that require a decision by the Board of Directors or the President. The diagram on the next page illustrates the Company's risk management in relation to the credit risks in its lending operations.

Credit and counterparty risk

Credit and counterparty risk represent the risk of incurring losses due to customers or counterparties failing to meet their obligations within the agreed time. Credit and counterparty risk is divided into three categories:

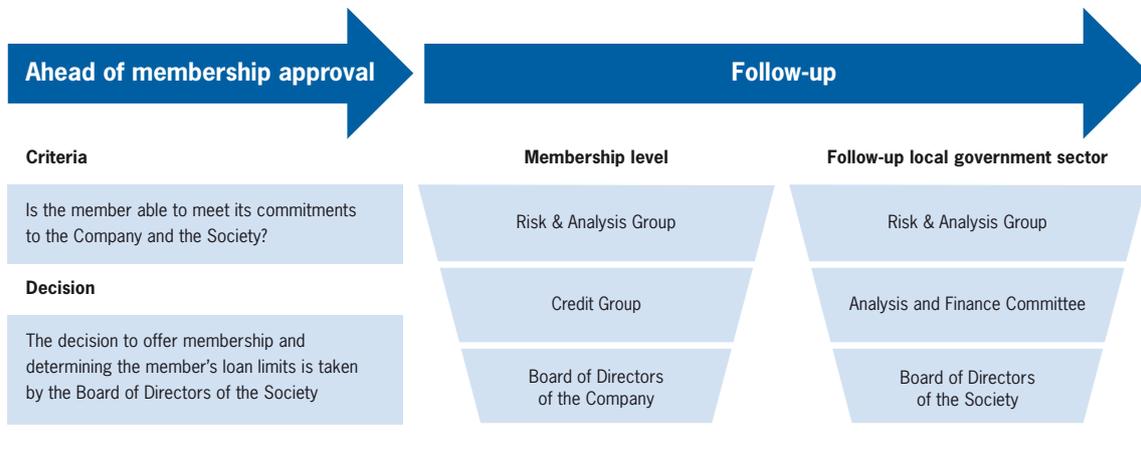
- Risks from lending.
- Risks from management of the liquidity reserve.
- Risks from value changes on derivative contracts.

On 31 December 2011, 76 (75) percent of Kommuninvest's credit risk exposure was towards Swedish municipalities and county councils in the form of loans. 23 (24) percent of the exposure was towards states and other issuers of securities in the form of investments; and 1 (1) percent of the exposure was towards derivatives counterparties.

Risks from lending

Kommuninvest's products are only available to members of the Kommuninvest Cooperative Society and companies, foundations or inter-authority associations, provided that their owner/s are member/s of the Kommuninvest Cooperative Society and sign a surety guaranteeing all of the borrower's obligations towards

Risk management – Lending



Kommuninvest. The risks associated with Kommuninvest's lending operations are low. From a capital cover perspective, local government authorities have a 0 percent risk weight. To date, no municipality or county council has defaulted on a payment commitment, nor has Kommuninvest ever suffered any credit losses in its lending operations. Municipalities/county councils and their companies are analysed when processing membership applications and on an ongoing basis during their membership. Municipalities are always evaluated in their entirety when borrowing, using a key figures-based model. The analysis includes the income statement, balance sheet, demographics and risks in municipal operations. The overall assessment also takes into account any surplus and deficits in the balance sheet. Once a quantitative analysis has been made, it is, if necessary, followed by a qualitative analysis. This scrutinises and analyses the local government corporation and its financial conditions in more detail.

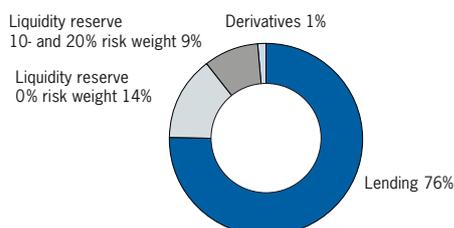
Risks from management of the liquidity reserve
In accordance with the instructions of the Board of

Directors, Kommuninvest maintains a considerable liquidity reserve, described in greater detail under Market risk, see page 43. Credit and counterparty risks associated with the management of the liquidity reserve consist of the risk of losses being incurred or of fluctuations in the value of the managed funds. The risks are mitigated by:

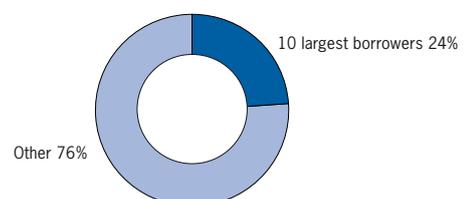
- Investments being limited to securities issued by counterparties with high creditworthiness, at least A (Standard & Poor's) or A2 (Moody's).
- Investments being limited to assets with a risk weight of 0 percent, 10 percent or 20 percent.
- The requirement that a significant share of investments be made in assets that can be pledged with the Riksbank or the European Central Bank, the ECB.
- Investments having a maximum maturity of 5.5 years.

At the end of 2011, 63 percent of the liquidity reserve was invested in securities issued by states or state-associated institutes with the highest possible creditworthiness, see graphs on page 42. Of the investments, 83 percent were in securities issued by Nordic and Ger-

Credit risk exposure, Dec 31, 2011



Credit concentration – distribution of lending, Dec 31, 2011



man issuers. Kommuninvest has low exposure to the countries at the heart of the European debt crisis. The sole exposure is an investment with final maturity in July 2013, corresponding to 1.8 percent of the total invested capital, placed with the Instituto de Crédito Oficial, a bank guaranteed by the Spanish state. During the year, Kommuninvest increased the percentage invested in covered bonds with Swedish counterparties. At the same time, a number of counterparties have had found that their limits have completely or partially been reduced as a result of the structural problems in Europe. In some cases investments were even sold before the original due date.

Risks from value changes on derivative contracts

To limit the market risks that arise when contractual borrowing and lending terms do not match, Kommuninvest uses risk management instruments in the form of derivative contracts. The counterparties are financial institutions. The counterparty risk consists of the risk of losses as a consequence of the counterparty failing to meet its payment obligation in accordance with derivative contracts. This risk is limited by entering into contracts with counterparties with high creditworthiness and requirements for assets pledged:

- A rating of at least A (Standard & Poor's) or A2 (Moody's). The counterparty's credit rating is also decisive in what Kommuninvest is prepared to accept when it comes to the contracts' maturity period, structure and permitted risk exposure. If the rating of an approved derivative counterparty exceeds A/A2 but is less than AA-/Aa3, and there is no CSA agreement with that counterparty, Kommuninvest may only enter interest and currency swap agreements with that counterparty.
- ISDA agreements are to be established with all counterparties and CSA agreements are also sought. ISDA agreements convey the right to prior redemption if the creditworthiness of the counterparty worsens, and permits netting of positive and

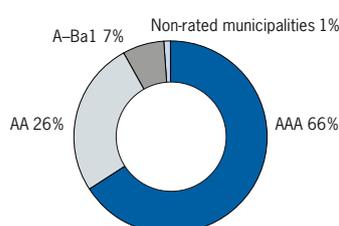
negative exposures. CSA agreements regulate the right to secure collateral to eliminate the exposure arising through derivative transactions. In 2011, a new CSA agreement was prepared.

The agreements are intended to mitigate the credit and counterparty risk associated with receivables. Kommuninvest's exposures through derivative contracts are shown in Note 3. In terms of nominal amounts, 30 (50) percent of derivative contracts are with counterparties with minimum credit ratings of AA from one of the recognised ratings institutions. The decline is explained by the fact that the credit ratings for two counterparties were lowered from AA- to A+. Kommuninvest has CSA agreements with these counterparties. On 31 December 2011 Kommuninvest had collateral from counterparties corresponding to SEK 4.3 (3.9) billion.

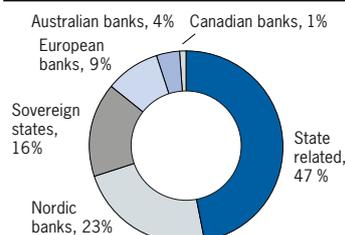
Continuous analysis and review

For lending activities, each municipality or county council is screened before being approved as a member of Kommuninvest Cooperative Society. Members' progress is subsequently followed up biannually based on a pre-determined analysis model. Each year, the Board sets credit limits for the members. The credit limits are individual for each member. In addition to a board limit, individual members also have a level of control based on an internal assessment model, which restricts the lending limit before a special analysis is carried out. After such an analysis the President can raise the loan limit up to the Board limit. The raising of the loan limit is based on the analysis model, which takes a number of key figures into account, including income, depreciation and surpluses, and which assesses the municipal corporation's combined payment capacity. Counterparties are evaluated according to their financial strength, and are compared with similar players. The research is intended to provide a complete picture of the counterparty's ability to fulfil its obligations. The Credit Group's activities also include

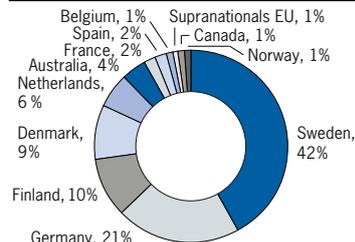
Liquidity reserve distributed by rating category, Dec 31, 2011



Liquidity reserve distributed by issuer category, Dec 31, 2011



Liquidity reserve distributed by country, Dec 31, 2011



proposing the removal or introduction of limits for approved counterparties and financial instruments. In addition to a monthly risk report from the Company's risk and analysis function, the Credit Group reports at least once a year to the Board of Directors of Kommuninvest on the development of all counterparties.

Greater emphasis on dealing with counterparty risks

Kommuninvest cooperates with sister organisations in Denmark and Finland and exchanges, within the framework of what is permitted under bank confidentiality, information on counterparty and credit-related risks. In 2011 market confidence for the EU and the banking sector continued to decline. Priority has therefore been given to investments in Swedish covered bonds and Swedish government bonds. To further mitigate exposure, Kommuninvest aims to enter CSA (Credit Support Annex) agreements with all derivative counterparties. This process continued in 2011 with the result that Kommuninvest now has CSA agreements with 20 out of 35 counterparties with whom the Company has outstanding contracts. A large proportion of the exposures incurred in relation to derivative counterparties are covered by these agreements. These give Kommuninvest the right, under certain conditions, to require extra collateral but also, in certain instances, an obligation to provide it. The determinants of when and how much extra collateral is to be pledged are whether the value change in derivative contracts entered exceeds the pre-determined contracted exposure or if the creditworthiness of any of the counterparties deteriorates.

Right to early redemption

Kommuninvest is moreover a member of the International Swaps and Derivatives Association (ISDA), and before entering derivative contracts it stipulates the right to early redemption of such contracts if the counterparty's credit rating deteriorates below a pre-determined level. Board guidelines stipulate that Kommun-

invest should strive to diversify derivative contracts between various types of counterparty, and counterparties in different geographical areas. The risk is that losses may occur if the counterparty fails to fulfil its obligations. The risk exposure comprises the cost of entering an equivalent contract in the market. Such cost is calculated for each contract and is considered a risk to the contract counterparty.

Delivery risk

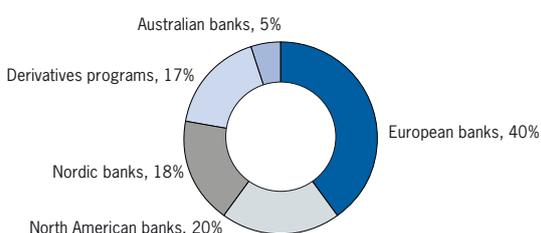
Delivery risk can also be said to be a type of credit and counterparty risk. This is the risk of a counterparty being unable to fulfil a securities or payment transaction. Accordingly, before embarking on a transaction Kommuninvest always ensures that the counterparty first fulfils its obligations, or that an approach is employed whereby both counterparties must meet their commitments simultaneously.

Liquidity risk

Liquidity risk can be described as a lack of financing, which in itself involves a risk concerning the organisation's opportunities to fulfill its undertakings. Liquidity risk is also the risk of far higher costs for borrowing required funds, or of loss when assets cannot be sold at a reasonable price. Kommuninvest limits this risk by maintaining favourable matching between the maturities of the Company's assets and liabilities. In order to fulfil the need for lending even during periods when financing opportunities on the capital markets are limited or too costly, the Board of Directors has decided on a primary liquidity reserve of at least 20 percent, but no more than 40 percent, of total lending volume, to members of Kommuninvest Cooperative Society and other borrowers for whom society members have signed a guarantee. The liquidity reserve is invested in securities that are liquid and that largely qualify as collateral at the Riksbank and/or the European Central Bank, the ECB.

In 2011, the liquidity situation was good, despite the periodically strained situation on the capital mar-

Derivative receivables distributed by counterparty group, Dec 31, 2011



ket. The Company has well diversified borrowing and utilises several capital markets. Over the year, the Company used both short and long-term borrowing. Kommuninvest increased its presence on the Swedish market over the course of the year through several new issues in the Swedish local government bond programme that was established in 2010.

Liquidity risks are monitored and analysed continuously to ensure that excessive short-term payment obligations do not arise. Kommuninvest also conducts stress tests of its liquidity on a regular basis to enhance preparedness and ensure that the Company is able to cope with situations in which, for example, various sources of financing fail. The Company also reviews liquidity by continuously calculating a “survival period.” This denotes the period during which the Company can manage without access to new financing.

The Basel Committee has developed new liquidity measures to assess structural and stressed liquidity. Given these upcoming regulatory changes, the Company has developed and adjusted its liquidity management to meet future requirements. Although the regulatory changes are not yet in force, the Company has opted to follow the so-called Liquidity Coverage Ratio (LCR). This ratio is calculated by dividing the Company’s highly liquid assets by net cash outflows for 30 days in a stressed scenario. According to this ratio, Kommuninvest has exceeded the upcoming requirement of 1 throughout 2011.

The other liquidity regulation, Net Stable Funding Ratio, NSFR, requires the institute’s stable financing to be greater than the need. Guidelines for the calcu-

lation of NSFR are yet to be finalised. Kommuninvest monitors the long-term liquidity need by, among other things, continuously calculating the so-called survival period, and has a stable situation.

Kommuninvest’s liquidity exposure with regard to remaining durations on assets and liabilities is shown in Note 3. The cash flow analysis also illustrates Kommuninvest’s liquidity situation.

Market risk

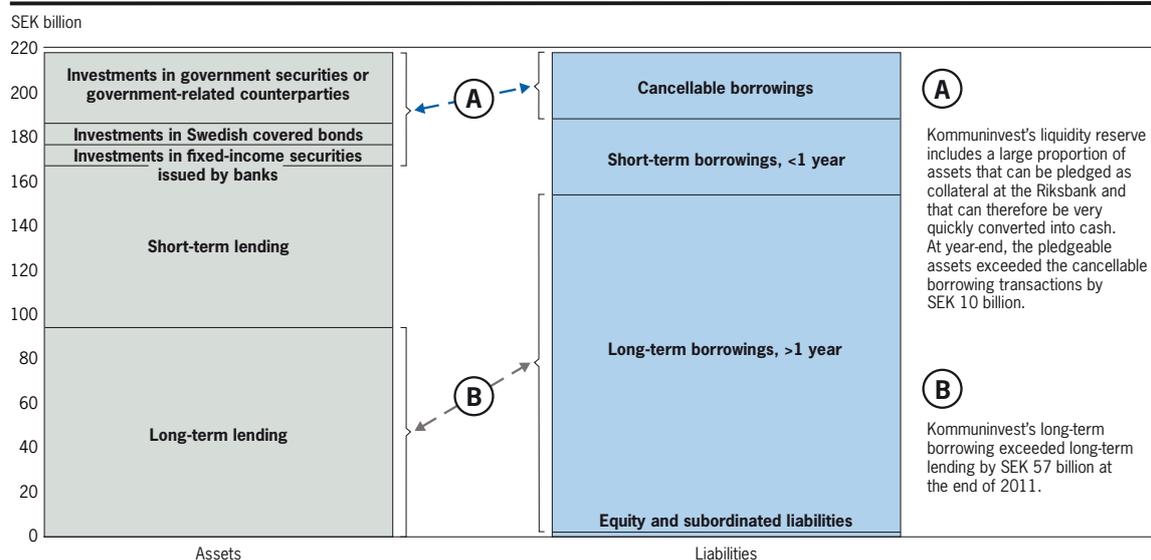
The main market risks to which Kommuninvest is exposed are interest-rate risk and foreign exchange risk.

Interest-rate risk limited at portfolio level

Interest-rate risk arises through mismatches in fixed interest periods between invested assets and the related funding. Due to the scope of the operation, comprehensive matching between the Company’s assets (lending) and liabilities (financing) is not always possible for each individual position, instead interest-rate risk is also limited at portfolio level. This can be done by matching two assets – one with daily fixed interest and the other with 6 months’ fixed interest – with a debt that has 3 months’ fixed interest

The risk (exposure) in the portfolio at any measurement point may never exceed SEK 10 million in a one percentage point parallel shift in the yield curve. However, there is an opportunity to have an exposure of at most SEK 15 million over a period of at most three days. If the exposure is positive, it would mean that the Company makes a profit if interest rates rise

Kommuninvest balance sheet structure, Dec 31, 2011



and a loss if interest rates fall. If the exposure is negative, it would mean that the Company makes a loss if interest rates rise and a profit if interest rates fall. On 31 December 2011 the risk in the entire portfolio was SEK -9.1 (+8.3) million in a one (1) percentage point parallel shift.

Foreign exchange limits currency risk

Currency risk arises when assets and liabilities denominated in a specific foreign currency in the balance sheet are mismatched in terms of size. Kommuninvest hedges this risk by means of derivatives. However, currency risk arises on an ongoing basis through the net interest income generated on returns on foreign currency investments. This risk is limited by continuously converting such returns into SEK. Kommuninvest's currency exposure is detailed in Note 3. At a 10 percent change in exchange rates, this exposure entails SEK 0.3 (0.9) million in currency risk.

Other market risks are eliminated through the use of derivatives

As part of its borrowing activities, Kommuninvest issues structured borrowing products, the return on which is determined by the price trend for an underlying instrument, such as individual shares, share indices, commodities or commodity indices. The issue of a structured debt obligations may incur a price risk associated with the underlying instrument included in the structured product. All price risks of this kind are eliminated through agreements with swap counterparties.

Operational risks

Operational risk is the risk of unexpected financial or confidence-related losses as a result of internal causes such as computer error, or external influences such as crime. Our work on operational risk focuses on our internal environment, which is the area we can most directly influence. One example of an operational risk type is legal risk. This is the risk of loss due to the inability to carry through a contract on legal grounds, such as due to insufficient documentation. Operational risks are reduced through:

- Utilisation of internal instructions, process descriptions and steering documents at every unit level.
- The duality principle – no single individual may ever manage an entire transaction alone. There are usually three people from different departments involved in a business flow.
- The right skills and experience – each employee is well-prepared with the latest information and technology. The right skills to ensure risks can be calculated and managed so that no unplanned risks arise. Establishing high personnel compe-

tence through continuous training is an important tool in this work.

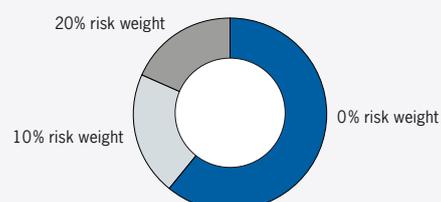
- Respect for skill – the internal control requires that each employee perceives and assumes responsibility for the risks in his/her specific area, and that each skill and skill area is respected.
- Compliance follows up steering documents and procedures.
- The internal audit monitors compliance within the enterprise with policies and rules laid down by the Board.

Kommuninvest's liquidity reserve

To ensure that the Company's customers have access to liquidity even in periods of uncertainty in the financial markets, Kommuninvest shall maintain a liquidity reserve amounting to between 20 and 40 percent of its lending volumes. Stringent requirements are imposed on asset quality:

- At least 65 percent of the liquidity reserve shall consist of securities qualify as collateral with the Riksbank, the Swedish central bank, or the European Central Bank, the ECB. At least 50 percent of the liquidity reserve shall qualify as collateral with the Riksbank.
- At least 40 percent of the liquidity reserve shall consist of securities denominated in SEK.
- At least 20 percent shall consist of Swedish covered bonds.
- Of the liquidity reserve, at least SEK 10 billion shall consist of securities maturing within 90 days; at least SEK 5 billion shall consist of Swedish government bonds and/or treasury bills.

Liquidity reserve distributed by risk weight, Dec 31, 2011



Kommuninvest and the new financial regulations

The internal process of creating a more stable financial system has resulted in the new rules proposed by the European Commission which are based on the Basel III regulations proposed by the Basel Committee. The new rules are to be introduced gradually between 2013 and 2018 to be fully implemented by 1 January 2019.

At the core is the need for larger and higher-quality capital bases among banks and a global framework for the assessment of liquidity risks. Capital requirements and buffers for normal institutes will amount to between 10.5 and 13.0 percent, of which 7 percent shall be Core Tier 1 capital.

The quotas determine the scope of the capital requirement in relation to the risk-weighted assets. Beyond this, even higher capital requirements for the very largest banks are being discussed.

At the end of 2011, the supervisory European Banking Authority (EBA) brought forward and raised the capital requirements for European banks. The banks are required to maintain a Core Tier 1 capital ratio of 9 percent in relation to risk-weighted assets as per 30 June 2012.

Even today, Kommuninvest has a high-quality capital base. Its structure is well adapted to the new requirements. At the end of 2011, the capital adequacy ratio totaled 45.7 percent – considerably higher than the EBA's minimum requirement.

However, if the Basel III proposal of a so-called leverage ratio of 3 percent is introduced from 2018 as a Pillar 1 requirement, Kommuninvest will need to strengthen its capital base – simply strengthening the capital base through profits will be insufficient. At the close of 2011, Kommuninvest's leverage ratio amounted to 0.81 percent. Including the expected injection from the Kommuninvest Cooperative Society (decision expected at the 2012 Annual General Meeting), Kommuninvest's leverage ratio was 0.95 percent at the close of 2011.

Kommuninvest is working to ensure that the regulation regarding the leverage ratio be adjusted to the conditions of financial actors focusing on the local government sector. In 2012, Kommuninvest will continue to strengthen its capital through profits with the purpose of achieving the owners' directive stipulating a capital base of at least 1 percent of the balance sheet total.

	Requirements Basel III	Kommuninvest 2011
Capital adequacy ratio		
Minimum requirements for normal institutions	10.5-13.0%	45.7%
Liquidity coverage ratio		
Portfolio of high-quality liquid assets / Net cash outflow over the next 30 days	≥ 1.0	3.1
Net Stable Funding ratio, NSFR		
Volume of available long-term financing / Volume of non-current assets	≥ 1.0	Assessment to commence once calculation methods have been finalised

Välle Broar - the modern wooden town.
The Municipality of Växjö is a member
of Kommuninvest Cooperative Society
since 2003.



Karlstad Airport.
The Municipality of Karlstad has
been a member of the Kommuninvest
Cooperative Society since 2005.



Governance and control

Corporate Governance Report for Kommuninvest i Sverige AB

Kommuninvest i Sverige AB ("Kommuninvest") is a Swedish public limited liability company and a wholly-owned subsidiary of the Kommuninvest Cooperative Society. Together with the Kommuninvest Cooperative Society and Kommuninvest Fastighets AB, Kommuninvest forms a financial group of companies. Because Kommuninvest offers publicly listed debt instruments, the Company is required by the Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL) to prepare a Corporate Governance Report. Good governance and control are crucial to Kommuninvest, since it is a publicly owned company with an assignment involving considerable responsibility.

Shareholders and Annual General Meeting

Kommuninvest is owned by Swedish municipalities and county councils through the Kommuninvest Cooperative Society. The Company's sole shareholder is the Kommuninvest Cooperative Society.

On 31 December 2011, the share capital in Kommuninvest amounted to SEK 292.4 million, divided among 2,923,850 shares. Each new member of the Kommuninvest Cooperative Society contributes participation capital to the Cooperative Society based on number of residents; this capital then benefits Kommuninvest, which issues new shares to the Cooperative Society. In 2011, new shares were issued for a value of SEK 3.9 million. The next new share issue is expected to take place in March 2012.

Resolutions by the 2011 Annual General Meeting

The Annual General Meeting of Kommuninvest considers and decides on the Company's income statement and balance sheet, discharge of Board members and the President from liability, appointment of the Board, Chairman and Vice Chairman until the end of the next Annual General Meeting and, where applicable, appointment of the auditors and remuneration for the Board and auditors. The Annual General Meeting of the Company is held in direct connection with the Annual General Meeting of the Society. The 2011 Annual General Meeting was held in Stockholm on 7 April 2011 and adopted resolutions including the following:

- Discharge from liability for the members of the Board of Directors and the President regarding their administration of the Company in 2010.
- The signing of new agreements (a recourse agreement and an agreement regarding members' responsibility for Kommuninvest's counterparty exposures regarding derivatives), remuneration principles and owner directives in line with the resolutions by the Annual General Meeting of the Society.
- New share issue and authorisation to implement new share issues during the financial year.
- Re-election of Board members Ellen Bramness Arvidsson, Lorentz Andersson, Kurt Eliasson, Anna von Knorring, Catharina Lagerstam, Anna Sandborgh and Johan Törngren.
- New election of Chairman of the Board Björn Börjesson.

Owner directives

The Board of Directors of the Kommuninvest Cooperative Society develops directives for companies in the Kommuninvest Group. The directives are adopted annually by the ordinary Annual General Meeting of the Society. The owner directives set out the framework of the operations assigned to the Board of Directors of Kommuninvest by the Society. The owner directives primarily include guidelines regarding risk levels, remuneration principles, principles for business travel and representation and for any special assignments set for the Company by the Society. The owner directives are adopted by the Annual General Meeting of Kommuninvest.

Election Committee

There is an Election Committee for the companies owned by the Society, Kommuninvest and Kommuninvest Fastighets AB.

The Election Committee bears the ultimate responsibility for the preparation of appointment decisions through a structured and transparent process allowing the members to give their views on proposals and to submit their own proposals regarding appointments and associated issues, thereby establishing favourable conditions for well-founded decisions.

The Election Committee of the companies owned by the Society shall represent the Board of Directors of the Society and consists of members elected by the Board from its own membership. The Board of Directors of the Society has resolved that its working committee shall act as the Election Committee.

Election Committee of the companies owned by the Society 2011/2012

Ann-Charlotte Stenkil (m),
Municipality of Varberg, Chairman
Alf Egnerfors (s),
Municipality of Eskilstuna, Deputy Chairman
Ewa-May Karlsson (c),
Municipality of Vindeln
Margreth Johnsson (s),
Municipality of Trollhättan

Further information on the Election Committee, including its complete agenda is available at www.kommuninvest.se

Board of Directors of Kommuninvest i Sverige AB

The Board of Directors of Kommuninvest deals with issues of financing, aspects of credit (for example, limits and analyses) and other operational matters. The Board bears the ultimate responsibility for the Company's organisation and management. The rules of procedure established by the Board stipulate areas such as the Board's remit and routines for Board meetings. Among other things, the Board sets objectives and strategies for operations, is responsible for identifying and managing risks, and ensuring that operations are conducted in compliance with the predetermined objectives. The Board is also tasked with preparing internal controlling documents including written instructions for the reports to be produced by the Company. The full Board is responsible for completing the tasks otherwise assigned to an audit committee. The rules of procedure are reviewed and adopted once a year.

The Board consists of eight members representing a broad skills base in areas such as public services, the capital markets and business development.

Chairman of the Board

The Chairman of the Board is responsible for the work of the Board of Directors being well organised and efficiently conducted and for ensuring that the Board fulfils its tasks. Among other things, the Chairman is required to encourage an open and constructive discussion among the Board, to ensure that the Board continuously updates and deepens its knowledge of the Company and its operations, as well as receiving comments from the owner association and disseminating these within the Board. Furthermore, the Chairman of the Board shall check that the Board's decisions are implemented efficiently, ensure that the work of the Board is evaluated annually, and act as a discussion partner and support for the President of the Company. The Chairman of the Board is responsible for ensuring that the Com-

pany's remuneration policy is independently reviewed and for preparing Board decisions regarding a) remunerations to senior executives, b) remunerations to employees with overarching responsibility for any of the Company's control functions, and c) measures for following the application of the Company's remuneration policy.

President

Instructions for the President and report instructions prepared by the Board stipulate the responsibilities of the President. These include the President's responsibility for the Company's ongoing activities pursuant to Board guidelines, and for drawing up a proposed operations plan, budget and annual/interim accounts. The President is also responsible for adherence to regulations and for setting guidelines and instructions regarding the various risks that arise in the operations.

Work of the Board of Directors in 2011

In 2011, the Board of Directors met on 10 (11) occasions. Agendas and decisions have involved:

- Guarantee issues and rules for central government support.
- Remunerations.
- Acquisition of Kommuninvest Fastighets AB.
- Preparations and decisions regarding issuances in the US (under 144A).
- IFRS matters.
- Capital issues, including leverage ratio and other Basel III/CRD IV issues, plan of action for 2012 and later.
- Limits for investment and derivative counterparties.
- Employee survey.
- Personnel policy.
- Dispute with the City of Helsingborg.
- Update of EMTN programme.
- Review of investment and derivatives counterparties.
- Owner directives.

Board members

During 2011, the Board of Directors of Kommuninvest consisted of Björn Börjesson (from April 7, 2011), Ellen Bramness Arvidsson, Lorentz Andersson, Kurt Eliasson, Anna von Knorring, Catharina Lagerstam, Anna Sandborgh and Johan Törngren. The members are presented on the next page.

The Election Committee of Kommuninvest proposes that the 2012 Annual General Meeting of the Company re-elect Björn Börjesson, Ellen Bramness Arvidsson, Lorentz Andersson, Kurt Eliasson, Anna von Knorring, Catharina Lagerstam, Anna Sandborgh and Johan Törngren.

Additional information on Kommuninvest's corporate governance

The following information can be accessed via Kommuninvest's website www.kommuninvest.se:

- Statutes of the Kommuninvest Cooperative Society.
- Details of members and approval of new members.
- Articles of Association of Kommuninvest i Sverige AB.
- Information on remuneration.
- Information on the work of the Election Committees.

Board of Directors of Kommuninvest i Sverige AB

Björn Börjesson

Elected: Chairman since 2011.

Education: Master of Laws, Stockholm University.

Previous positions: Deputy CEO at Handelsbanken 1994–2011, with responsibility for loans, investment banking, contacts with government authorities and internal corporate governance.

Current assignments: Deputy Chairman, Third Swedish National Pension Fund.



Anna von Knorring,

Assistant Director, State Treasury, Finland.

Elected: Member since 2004.

Education: Master of Laws, Helsinki University; MA Economics, Swedish School of Business and Economics, Helsinki.

Previous positions: Ministry of Finance and State Treasury.

Current assignments: Board Member, Nordic Capital Markets Forum. Member of the Sparbank Foundation delegation, Helsinki. Member, Market Advisory Committee, Euroclear Finland.



Ellen Bramness Arvidsson

Chief Economist, Insurance Sweden.

Elected: Deputy Chairman 2006–2010, 2011–, Chairman 2010–2011, member since 2003.

Education: Cand. oecon., Oslo University, Diploma in financial analysis, Stockholm School of Economics and FAF.

Previous positions: Ministry of Finance, under-secretary and first secretary.



Catharina Lagerstam

Consultant and professional Board member.

Elected: Member since 2009.

Education: PhD, Stockholm School of Economics; Graduate Engineer, Royal Institute of Technology; Graduate Business Administrator, Stockholm School of Economics.

Previous positions: Member of the Board of Clearstream, Luxembourg; CFO Hufvudstaden AB; Valuation Manager Bankstödsnämnden; lecturer and researcher, Stockholm School of Economics.

Current assignments: Board Member, Retail Finance Europe, Nordic Mines AB, Landshypotek AB, Styrelseakademien Stockholm and Alpcot Agro.



Lorentz Andersson

Elected: Member since 2001.

Education: Luleå University of Technology, Honorary Doctor of Technology, construction engineer.

Previous positions: Västerbotten County, County Governor. Chairman of the Municipal Executive Board, Municipality of Skellefteå. AB Asako and Polaris AB, President.

Current assignments: Chairman of the Board of Sparbank Foundations Management Company, Sparbanksstiftelsen Norrland's venture capital foundation, Träcentrum Norr and Norrbottenriabanan AB.



Anna Sandborgh

Chief Administrative Officer, Municipality of Karlstad; President, Karlstads Stadshus AB.

Elected: Member since 2010.

Education: Master of Laws, Uppsala University.

Previous positions: Chief Administrative Officer and research secretary, Municipal Executive Board, Municipality of Karlstad.

Current assignments: Vice Chairman, Vänerhamn AB.



Kurt Eliasson

President, SABO.

Elected: Member since 2010.

Education: IFL Executive Education, Stockholm School of Economics, Real Estate Agent Diploma.

Previous positions: CEO, Förvaltnings AB Framtiden, Board Member of Riksbyggen.

Current assignments: Chairman of the Board, Chalmers University of Technology Foundation and NBO, Nordisk Boligorganisation. Member of Fastigo, Cecodhas Housing Europe and the Swedish Government's Delegation for Sustainable Cities.



Johan Törngren

Consultant.

Elected: Member since 2009.

Education: MBA, Stockholm School of Economics.

Previous positions: Senior Vice President and Treasurer SAS Group, Vice President Group Finance SAS Group, Treasury at Svensk Exportkredit AB.

Current assignments: Chairman, SPP Fonder AB. Board Member SPP Livförsäkring AB and SPP Liv Fondförsäkring AB.



Remuneration principles

The Board of Directors sets the remuneration principles applicable within the Company. Remunerations within Kommuninvest shall engender conditions to attract, retain and motivate employees so that operations can be conducted in an optimal manner. The basic principle is that remunerations and other terms of employment should be in-line with the market and should consist solely of fixed wages. Kommuninvest pays no variable remuneration.

Wages are set taking into consideration the tasks involved and their degree of difficulty, responsibilities, educational requirements and how the employee fulfils the demands imposed and contributes to improvements in operations.

Remunerations

In accordance with the framework for fees to the Board of Directors set by the Annual General Meeting of the Company, the Chairman of the Board of Directors, Björn Börjesson received SEK 300,000 for the period 7 April 2011 to 31 December 2011. Fees totalling SEK 257,000 were paid to Ellen Bramness Arvidsson, the former Chairman of the Board of Directors. Fees to the other members of the Board of Directors have been paid in accordance with the table below. The total fees paid to the members of the Board of Directors elected by the Annual General Meeting amounted to SEK 1,341,000 for 2011.

Remuneration and attendance – Board of Directors of Kommuninvest i Sverige AB (publ)

Name	Position of dependence	Presence Board meetings	Remuneration 2011, SEK	Remuneration 2010, SEK
<i>Current Board of Directors</i>				
Björn Börjesson (elected in April 2011)	Independent	8 (of 8)	300,000	–
Ellen Bramness Arvidsson	Independent	8 (of 10)	257,000	283,000
Lorentz Andersson	Independent	10 (of 10)	137,000	126,000
Kurt Eliasson	Independent	8 (of 10)	117,000	94,000
Anna von Knorring	Independent	10 (of 10)	137,000	90,000
Catharina Lagerstam	Independent	9 (of 10)	119,000	110,000
Anna Sandborgh	Independent	10 (of 10)	137,000	102,000
Johan Törngren	Independent	10 (of 10)	137,000	94,000

Auditors for Kommuninvest i Sverige AB

The Annual General Meeting of Kommuninvest elects external and lay auditors. According to the Articles of Association, Kommuninvest shall have an auditor, who is appointed by the Annual General Meeting of the Company following the proposal of the Society's representative at the meeting. The Annual General Meeting of the Company also appoints a deputy auditor.

External auditor

Ernst & Young AB have been appointed auditors from 2008 to 2011; appointed for the first time in 2004, with Peter Strandh as auditor in charge with overall responsibility. Peter Strandh has conducted the audit for Kommuninvest since 2007. Peter Strandh's other auditing assignments include the First, Second, Third, Fourth and Seventh Swedish National Pension Funds (AP Fonderna), If Skadeförsäkring, Nordnet, LRF, DNB and Ålandsbanken.



Peter Strandh, authorised public accountant, Ernst & Young

Lay auditors

The lay auditors regularly meet the external auditor, the Chairman of the Board, the President and other representatives of the Company. Where necessary the lay auditors can initiate auditing measures additional to the statutory audit. The lay auditors also act as an election committee, recommending auditors and submitting proposals for their remuneration.

At the 2009 Annual General Meeting of the Kommuninvest i Sverige AB, the following lay auditors for the Company were appointed for the period up to the end of the 2012 Annual General Meeting:

Anita Bohman (s)	Former Deputy Chairman of the Municipal Executive Board in the Municipality of Västervik.
Barbro Tjernström (m)	Former Chairman of the Municipal Executive Board in the Municipality of Söderköping.

Executive Management Team

Tomas Werngren

President and CEO

Education: University of Örebro and Stockholm University, B.Sc. Engineering, Public Administration.

Previous positions: Vice President and Finance Director at Kommuninvest and Treasurer at SBAB, and others.

Other assignments: Board member of Vasallen AB.

Born: 1961



Maria Viimne

Deputy CEO

Education: Mälardalen University, B.A. Economics. Stockholm University, Master of Laws. University of Rotterdam and University of Hamburg. European Master in Law & Economics.

Previous positions: Finance Group Director and company counsel at Kommuninvest, and others.

Born: 1970



Executive managers of Kommuninvest i Sverige AB

The President leads, organises and develops operations in such a way that the objectives determined by the Board of Directors are achieved. Written instructions stipulate the division of labour between the Board of Directors and the President.

The President is responsible for keeping the Board of Directors continuously informed of changes to regulatory structures, the content of audit reports and other significant events. The President has the job of providing the Board of Directors with necessary information and decision-support data, including prior to the Board meetings, and of ensuring that the Board receives a written report each month. The rules of procedure also formalise the President's financial framework.

Executive Management Team

To support the President, there is an Executive Management Team. In addition to the President, this consists of Maria Viimne (Deputy President), Johanna Larsson (Head of Administration), Anders Gånge (Head of Funding and Treasury) and, effective November 7, 2011, Pelle Holmertz (Head of the Lending Group).

Anders Gånge

Head of Funding and Treasury

Education: Lund University, B.A. Economics. Central Missouri State University, USA. Örebro University.

Previous positions: Senior Bond and Swap Trader at Handelsbanken, Head of Treasury at Kommuninvest and Senior Swap and Bond Trader at Unibank, and others.

Born: 1971



Pelle Holmertz

Head of the Lending Group

Education: University of California at Berkeley, B.A. Economics.

Previous positions: Head of Finance and Treasury at Kommuninvest, Group Head of Capital Markets at Evli Bank and Global Head of Trading FX and Fixed Income at Swedbank, among others.

Born: 1960



Johanna Larsson

Head of Administration

Education: Stockholm University, M.A. Economics; IFL Executive Education, Stockholm School of Economics, Diploma in Financial Analysis (AFA, CEFA).

Previous positions: Financial advisor at Kommuninvest and portfolio manager at Birka Energi, and others.

Born: 1973



Remuneration – Executive managers of Kommuninvest i Sverige AB (publ)

Name	Year	Base salary	Other benefits	Variable performance benefit	Pension costs	Total
Tomas Werngren	2011	2,624,452	83,496	0	754,803	3,462,751
	2010	2,595,561	82,371	0	598,000	3,275,932
Maria Viimne	2011	1,831,754	0	0	442,072	2,273,826
	2010	1,426,689	63	0	335,442	1,762,194
Executive Management Team	2011	4,057,255	4,914	0	943,570	5,005,739
	2010	2,477,634	313	0	777,000	3,254,947

Board of Directors' report on internal governance with regard to financial reporting

The Board of Directors of Kommuninvest bears the overall responsibility for operations and for internal governance and control. The Board of Directors has adopted an internal governance and control policy and each year adopts an operations plan, as well as plans for internal governance and control.

Responsibility for maintaining an effective control environment and for ongoing internal control processes is delegated to the President. This includes providing guidelines for and implementing internal governance and control and following up on adherence with policies and other guidelines in the area. The President is responsible for completed internal control work processes being reported to the Board of Directors.

Kommuninvest's process for the internal control of the financial reporting process is based on the framework developed by the Committee of Sponsoring Organisations of the Treadway Commission (COSO). The process is based on the targets set for the operations and includes five components – risk assessment, control environment, control activities, information and communication, as well as monitoring. The process has been designed to ensure the appropriate and efficient organisation and management of operations, reliable financial reporting and strong capacity for adherence to legislation, regulations, internal rules, as well as generally accepted principles and good standards.

The assessment of risk is based on the Company's understanding and application of the concept of risk as a combination of probability and consequence. Certain risks, for example financial risks, are assessed on the basis of mathematical models, while others, such as the risk of fire or power outages, are assessed without taking models into account. Clear targets for operations are a prerequisite for good risk assessment. The control environment, control activities, information and communication, as well as monitoring are adapted to the needs that emerge through the risk assessment.

Each manager bears full responsibility for the internal governance and control of the operations that he/she oversees. This responsibility requires the existence of suitable instructions and procedures for operations and that adherence to these procedures is followed-up on a regular basis. Consequently, the responsibility for internal control and adherence to regulations is an integrated part of management responsibility.

All others within the organisation are also responsible for their portion of the internal governance and control system by producing information or, for example, by carrying out checks in various work flows.

Checks are organised according to three lines of defence. The first line of defence is located within the business operations, where responsibility is allocated for measuring, checking and managing these risks on a daily basis by means of efficient control procedures. The second line of defence is separated from the business operations and is located within the administrative department, which checks, monitors and ensures the introduction of efficient risk management processes throughout the organisation and assists those responsible for various risks with the internal reporting of those risks. The second line of defence also includes risk control and compliance. The third line of defence is the internal audit unit, which, in a risk-based manner, reports to the Board and Management on how the Company assesses and manages its risks. This includes the procedures of the first and second lines of defence.

Risk control

Kommuninvest's risk control function exercises overarching risk control and monitors the Company's risks, principally credit risks, market risks, liquidity risks and operational risks. A more detailed description of the organisation and work of the risk control function is given on page 40. The function is separated from business operations. The manager of the risk control function is appointed by the President, who reports the appointment to the Board of Directors. The risk control manager reports to the Head of Administration. The Board of Directors receives regular updates on risk control issues.

Compliance

Kommuninvest's compliance function is a control and support function that is independent in relation to business operations. It is also separated from Kommuninvest's corporate legal function, which is often involved in ongoing business operations. The compliance function shall work proactively to safeguard good regulatory compliance within the Company and to support compliance issues by means of advice and follow-up in all areas of compliance, thereby also supporting business operations and management. Tasks include risk management, monitoring, reporting, developing internal rules, training and contacts with supervisory authorities. The compliance function is also responsible for checking that policies and instructions live up to stringent demands for effective control.

However, compliance with regulations is the responsibility of everyone within Kommuninvest. The establishment of a central compliance function does not exempt any employee from his/her responsibility to adhere to the internal and external rules applicable to operations. It is the duty of the head of the compliance function to assist the Board of Directors and the President on compliance issues and to coordinate the

administration of such issues. The head of the compliance function is appointed by the President and reports at least once a year to the Board of Directors. Based on analyses of the Group's compliance risks, the President sets an annual compliance plan and reports on this to the Board.

Internal audit

The internal audit is an independent and impartial safeguard and an advisory unit tasked with adding value and improving the organisation's operations. The internal audit helps the organisation achieve its objectives by assessing and enhancing efficiency in risk management, governance, control and management processes in a systematic and structured way.

Kommuninvest's internal audit is an independent review function that reports directly to the Board of Directors. The internal audit is responsible for evaluating risk management, control and governance processes within Kommuninvest and for ensuring that operations are conducted in accordance with the intentions of the Board of Directors and the President. The internal audit reports to the Board of Directors, the President and the Group's external auditors on an ongoing basis. Each year, the Board of Directors establishes a plan for the work of the internal audit. The President reports to the Board on measures implemented as consequence of the internal audit unit's reports.

Income statement

1 January - 31 December

SEK, million	Note	2011	2010
Interest revenues		5,401.6	3,025.0
Interest expenses		-4,829.0	-2,593.0
NET INTEREST INCOME	4	572.6	432.1
Commission expenses	5	-8.6	-4.4
Net result of financial transactions	6	72.1	17.2
Other operating income		0.1	0.3
TOTAL OPERATING INCOME		636.2	445.1
General administration expenses	7	-230.0	-160.5
Depreciation of tangible fixed assets	16	-2.5	-2.7
Other operating expenses	8	-7.6	-6.2
TOTAL EXPENSES		-240.1	-169.4
OPERATING PROFIT		396.1	275.7
Appropriations	9	13.9	-83.2
Tax on income	10	-109.4	-51.9
INCOME FOR THE YEAR		300.6	140.6

Statement of comprehensive income

1 January - 31 December

SEK, million	Note	2011	2010
INCOME FOR THE YEAR		300.6	140.6
Other comprehensive income			
Available-for-sale financial assets		-99.0	-68.1
Available for sale financial assets, transferred to income for the year		-0.2	0.9
Loans and receivables		-4.2	-4.2
Tax attributable to components in other comprehensive income	10	27.2	18.8
OTHER COMPREHENSIVE INCOME		-76.2	-52.6
COMPREHENSIVE INCOME FOR THE YEAR		224.4	88.0

Balance sheet

As per 31 December

SEK, million	Note	2011	2010
ASSETS			
Cash		0.0	0.0
State bonds eligible as collateral	11	10,841.7	12,887.7
Lending to credit institutions	3	1,734.5	1,697.6
Lending	12	168,070.5	133,729.1
Bonds and other interest-bearing securities	13	39,518.7	28,759.5
Shares and participations	14	1.3	1.0
Shares and participations in associated companies	15	0.5	0.5
Derivatives	3	13,687.2	13,024.0
Tangible assets	16	6.7	6.9
Other assets	17	148.3	67.5
Prepaid expenses and accrued revenue		19.0	26.4
TOTAL ASSETS		234,028.4	190,200.2
LIABILITIES, PROVISIONS AND EQUITY			
Liabilities to credit institutions	3	4,149.4	3,438.9
Securities issued	3	218,037.4	173,851.9
Derivatives	3	9,354.5	10,794.2
Other liabilities	18	455.4	66.4
Accrued expenses and prepaid revenue	19	111.5	44.1
Provisions	20	1.6	1.2
Subordinated liabilities	21	1,000.2	1,002.9
Total liabilities and provisions		233,110.0	189,199.5
Untaxed reserves	22	204.0	217.9
Equity		714.4	782.8
Restricted equity			
Share capital (2,923,850 and 2,734,550 shares, respectively, quoted value SEK 100)		292.4	273.4
New share issue in progress (0 and 150,000 shares, respectively, quoted value SEK 100)		-	15.0
Statutory reserve		17.5	17.5
Unrestricted equity			
Fair value reserve		-87.6	-11.3
Profit brought forward		191.5	347.6
Income for the year		300.6	140.6
Total equity		714.4	782.8
TOTAL LIABILITIES, PROVISIONS AND EQUITY		234,028.4	190,200.2
Memorandum items			
Collateral pledged for own liabilities	23	3,516.9	4,808.2
Contingent liabilities		None	None
Obligations			
Committed undisbursed loans		1,576.0	1,856.0

Equity

Statement of changes in equity

2011

	Restricted equity			Unrestricted equity		Total equity
	Share capital	Statutory reserve	Fair value reserve ¹	Profit or loss brought forward	Income for the year	
SEK, million						
Equity brought forward 1 Jan 2011	288.4	17.5	-11.3	347.6	140.6	782.8
Income for the year	-	-	-	-	300.6	300.6
Other comprehensive income	-	-	-76.2	-	-	-76.2
Appropriation of surplus	-	-	-	140.6	-140.6	-
New share issue	3.9	-	-	-	-	3.9
Group contributions	-	-	-	-402.6	-	-402.6
Tax effect on Group contribution	-	-	-	105.9	-	105.9
Equity carried forward 31 Dec 2011	292.4	17.5	-87.6	191.5	300.6	714.4

¹ Fund for fair value consists of the following

- Available-for-sale financial assets	-88.5
- Loans and receivables (reclassified)	0.9

2010

	Restricted equity			Unrestricted equity		Total equity
	Share capital	Statutory reserve	Fair value reserve ¹	Profit or loss brought forward	Income for the year	
SEK, million						
Equity brought forward 1 Jan 2010	269.6	17.5	41.3	191.2	170.6	690.2
Income for the year	-	-	-	-	140.6	140.6
Other comprehensive income	-	-	-52.6	-	-	-52.6
Appropriation of surplus	-	-	-	170.6	-170.6	-
New share issue	3.8	-	-	-	-	3.8
New share issue in progress	15.0	-	-	-	-	15.0
Group contributions	-	-	-	-19.3	-	-19.3
Tax effect on Group contribution	-	-	-	5.1	-	5.1
Equity carried forward 31 Dec 2010	288.4	17.5	-11.3	347.6	140.6	782.8

¹ Fund for fair value consists of the following

- Available-for-sale financial assets	-15.3
- Loans and receivables (reclassified)	4.0

Cash flow statement

1 January - 31 December

SEK, million	2011	2010
Operational activities		
Operating profit	396.0	275.7
Adjustment for items not included in cash flow	-10.6	88.0
Income tax paid	-84.4	-121.0
Cash flow from operating activities before changes in the assets and liabilities of operating activities	301.0	242.7
Change in interest-bearing securities	-8,412.1	6,163.7
Change in lending	-32,978.2	-11,143.9
Change in other assets	-11.7	-11.3
Change in other liabilities	125.6	-235.0
Cash flow from operating activities	-40,975.4	-4,983.8
Investment activities		
Divestments of tangible assets	-	0.4
Acquisition of tangible assets	-2.4	-6.4
Cash flow from investment activities	-2.4	-6.0
Financing activities		
Securities issued	143,755.1	99,606.1
Repayment of debt	-102,716.1	-94,345.9
Subordinated loan	-	1,000.0
New share issue	3.9	18.8
Group contribution paid	-27.7	-19.3
Cash flow from financing activities	41,015.2	6,259.7
Cash flow for the year	37.5	1,269.9
Liquid assets at the start of the accounting period	1,697.6	427.7
Cash and equivalents at end of the year	1,735.1	1,697.6
<p>The cash flow statement has been prepared using the indirect method. Operating profit has been adjusted for changes not included in operational activities. The cash flow statement has been divided into inward and outward payments from operational activities, investment activities and financing activities. Liquid assets consists in their entirety of lending to credit institutions.</p>		
Adjustment for items not included in cash flow.		
Depreciation	2.5	2.7
Exchange rate differences from change in financial assets	0.0	-1.2
Unrealised changes in market value	-13.1	86.5
Total	-10.6	88.0
Interest paid and earned, included in the cash flow.		
Interest received	5,032.9	2,923.0
Interest paid	-4,459.3	-2,454.0

Notes

All amounts are given in millions of SEK unless otherwise stated.

1 Information about Kommuninvest i Sverige AB

This Annual Report applies to the year ending 31 December 2011 and relates to Kommuninvest i Sverige AB (publ), registered number: SE556281-4409. Kommuninvest has its registered office in Örebro. Kommuninvest's address is: P.O. Box 124, SE-701 42 Örebro, Sweden.

The parent company of Kommuninvest i Sverige AB is the Kommuninvest Cooperative Society, registered number: SE716453-2074.

The Annual Report was approved for publication by the Board of Directors on 7 March 2012. The income statement and balance sheet will be subject to ratification by the Annual General Meeting on 18 April 2012.

2 Accounting principles

Compliance with standards and legislation

The Kommuninvest Annual Report has been prepared in accordance with the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (ÅRKL), and the Swedish Financial Supervisory Authority's regulations and general recommendations regarding annual accounts for credit institutions and securities companies (FFFS 2008:25).

Consequently all International Financial Reporting Standards and interpretations endorsed by the EU are followed as far as possible, within the provisions of ÅRKL and considering the additions and exemptions specified in FFFS 2008:25.

The accounting principles stated below were applied consistently in all periods presented in the financial statements, unless stated otherwise.

Amended accounting principles due to new or amended IFRS

Amendments to IFRS with application as of 2011 have had no significant effect on the Company's accounts.

Future accounting principles

As a consequence of the acquisition of Kommuninvest Fastighets AB in January 2012, Kommuninvest will, effective from 2012, also prepare consolidated financial statements. The consolidated financial statements will be prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU. The major difference compared with the financial statements prepared to date will be that appropriations and untaxed reserves will not be recognized in the consolidated income statement or balance sheet but will be broken down into, and replaced by, an earnings/equity portion corresponding to 73.7 percent and a deferred tax portion corresponding to 26.3 percent.

New and amended standards from IASB and statements from IFRIC

Of the new standards and interpretations coming into force after 2011, IFRS 9 Financial Instruments and IFRS 13 Fair Value Measurement have been deemed to affect Kommuninvest's future annual accounts.

IFRS 9 Financial Instruments is intended to replace IAS 39 Financial Instruments: Recognition and Measurement from

1 January 2015. The IASB's project to replace IAS 39 is divided into three sections, Classification and Measurement, Impairment Model and Hedge Accounting.

Only classification and measurement of financial instruments is published in its entirety at this time. The categories of financial assets currently included in IAS 39 will be replaced in IFRS 9 by two categories, whereby assets are reported at fair value or amortised cost. Amortised cost is used for instruments held according to a business model the object of which is to receive the contractual cash flows; which shall consist of payments of capital sums and interest on those capital sums on specified dates. Other financial assets are reported at fair value and the opportunity to apply a "fair value option", as in IAS 39, is retained. Changes in fair value are to be reported in income, with the exception of value changes on equity instruments not held for trade and for which an initial choice is made to report value changes in other comprehensive income. Changes on derivatives used in hedge accounting are not affected by this section of IFRS 9 and are reported in accordance with IAS 39 until further notice.

Most of the principles of classification and measurement of financial liabilities under IFRS 9 are consistent with the principles in IAS 39, except for how to report changes in fair value of financial liabilities voluntarily reported at fair value according to the fair value option. For these liabilities, the change in value is divided between changes attributable to own creditworthiness and changes in the benchmark interest rate.

Kommuninvest has not yet assessed the impact of IFRS 9, nor has it decided on whether to apply the new principles in advance since IFRS 9 has not yet been approved for application within the EU.

IFRS 13 Fair Value Measurement is a new uniform standard for measurement of fair value and improved disclosure requirements. The standard will be applied prospectively to financial years beginning 1 January 2013 or later. The amendment is expected to be approved by the EU during the third quarter of 2012.

Kommuninvest has not yet assessed whether IFRS 13 will entail any change in the methods currently applied for fair value measurement.

Significant judgments and assumptions

The preparation of financial statements includes judgments and assumptions that affect the accounting and disclosures. The most important judgments when applying accounting principles concern the choice of accounting category for financial instruments, as explained below in the section on financial instruments. When determining the fair value of financial instruments not traded in active markets, Kommuninvest applies valuation techniques and then makes assumptions that may be associated with uncertainty. Note 26 describes how fair value for financial instruments is derived and significant assumptions and uncertainty factors including sensitivity analysis.

Functional currency and presentation currency

Kommuninvest's functional currency is the Swedish krona (SEK) and the financial statements are presented in the same currency. All amounts are rounded off to the nearest million unless otherwise stated.

Transactions in foreign currencies

Transactions in foreign currencies are translated into the functional currency at the exchange rate in force on the transaction date. Monetary assets and liabilities in foreign currencies are translated into the functional currency at the exchange rate in force on the balance sheet date. Exchange rate differences arising from the conversions are recognised in the income statement.

Associated companies

Participations in associated companies are reported in accordance with the cost method.

Interest revenues and interest expenses

Interest revenues and interest expenses presented in the income statement comprise:

- Interest on financial assets and liabilities measured at amortised cost.
- Interest from financial assets classified as available-for-sale.
- Interest from financial assets classified as at fair value through profit or loss.
- Interest on derivatives that are hedging instruments and for which hedge accounting is applied.

Commission expenses

These are expenses for services received such as deposit fees, payment agency commissions and securities brokerage.

Net result of financial transactions

Net result of financial transactions encompasses the realised and unrealised changes in value arising from financial transactions. The net result of financial transactions comprises:

- Unrealised changes in fair value on assets and liabilities held for trading purposes.
- Unrealised changes in fair value on assets and liabilities recognised at fair value through profit or loss.
- Unrealised changes in fair value on derivatives where fair value hedge accounting is applied.
- Unrealised changes in fair value on hedged items with regard to hedged risk in fair value hedges.
- Capital gain/loss from divestment of financial assets and liabilities.
- Exchange rate changes.

Measurement principles for preparing the Company's financial statements

Financial assets and liabilities are recognised at amortised cost, except for financial assets measured at fair value, or subject to fair value hedging, see below.

Financial instruments

Financial instruments recognised in the asset side of the balance sheet include lending, lending to credit institutions, interest-bearing securities, derivatives and other financial assets. Liabilities and equity include liabilities to credit institutions, issued securities, derivatives, subordinated liabilities and other financial liabilities.

Recognition in and removal from the balance sheet

A financial asset or financial liability is recognised in the balance sheet when Kommuninvest becomes party to the instrument's contractual terms.

A financial asset is removed from the balance sheet when the rights in the agreement are realised, fall due or the Company loses control over them. The same applies for part of a financial asset. A financial liability is removed from the balance sheet once the obligation in the contract has been fulfilled or is in some other way extinguished. The same applies for part of a financial liability.

Financial assets and financial liabilities are offset and recognised at a net amount in the balance sheet only when there is a legal right to offset the amounts and it is intended to settle the items with a net amount or to realise the asset and settle the liability concurrently.

Acquisitions and sales of financial instruments are reported on the business day, i.e. the day the Company commits to acquiring or selling the instrument.

Classification and measurement

On first recognition, a financial instrument is classified partly based on the reason for its purchase, but also on the options included in IAS 39. The classification determines how the financial instrument is measured after the first recognition as described below.

Financial assets and liabilities classified as at fair value through profit or loss

Financial instruments in this category are measured continuously at fair value with changes in value reported in the income statement.

This category consists of two sub-groups: in part, financial assets and liabilities held for trade and, in part, other financial assets and liabilities allocated to this category by Kommuninvest on first recognition.

The first sub-group comprises derivatives held for financial hedging but not encompassed by hedge accounting and investments included in the trading operations.

The second sub-group includes assets such as lending and investments. The reason Kommuninvest has classified assets to this category is to rectify an accounting mismatch that would otherwise arise regarding measurement and recognition. Risk management instruments in the form of derivative contracts are used to limit the market risks that arise when the terms for borrowing, lending and investment do not match. It would result in a mismatch in the accounts if the derivatives were measured at fair value through profit or loss but not the associated lending or investment.

The second sub-group also includes liabilities to credit institutions and issued securities. This refers primarily to borrowing at fixed interest and structured borrowing. The reason for classifying borrowing at fixed interest in this category is that these borrowings are hedged financially with a derivative at fair value and the borrowings are mainly used for loans measured at fair value. It would be inconsistent to measure lending and derivatives at fair value but not borrowings.

The reason for classifying structured credit in this category is that the borrowing contains material embedded derivatives and that it significantly reduces inconsistencies in the valuation of free-standing derivatives and borrowing.

Loans and receivables

Loan receivables and accounts receivable are assets with fixed or determinable payments that are not quoted in an active market. These assets are measured at amortised cost, i.e. with a deduction for doubtful receivables. This includes lending to credit institutions, certain other lending and the investments which Kommuninvest has reclassified from financial assets available for sale, see Note 26.

Available-for-sale financial assets

This category includes Kommuninvest's investments in interest-bearing securities which are not included in trading operations or have an accompanying interest hedging derivative. This category formerly recognised the interest-bearing securities which have been reclassified as loans and receivables; see Note 26.

Assets in this category are valued at fair value with value changes recognised on other comprehensive income. Changes in value due to writedowns or exchange rate differences are recognised in the income statement. Interest is also recognised in the income statement.

Measurement at fair value recognised on other comprehensive income is ongoing until the instrument matures or is divested. On divestment of the asset, the accumulated gain or loss, which was previously recognised on other comprehensive income, is recognised in the income statement.

Other financial liabilities

Included here are liabilities to credit institutions, issued securities, subordinated liabilities and other financial liabilities, such as accounts payable. The liabilities are measured at amortised cost.

Hedge accounting

To obtain a true and fair picture of the operation, Kommuninvest applies, where possible, fair value hedge accounting for the assets and liabilities which have been hedged with one or more financial instruments. The hedged risk is the risk of fluctuations in fair value as a consequence of changes in the interest on swaps. The hedged item is therefore reassessed on the basis of changes in the fair value of the hedged risk. Kommuninvest uses interest rate and currency interest rate swaps as hedge instruments. This means that the asset/liability is measured at fair value through profit or loss with regard to the components which the instrument hedges.

Any inefficiency is recognised in the income statement. If a hedging relationship does not fulfil the efficiency requirements, the relationship is discontinued and the liability is recognised at amortised cost and the accumulated change in value of the liability is allocated over the remaining term. Kommuninvest's hedging relationships have been deemed highly efficient.

Credit losses and writedowns on financial instruments

The special status of the local government authorities in the Swedish constitution and their right to levy taxes mean that municipalities and county councils cannot be declared bankrupt. Neither can they cease to exist in any other way. This entails an implicit government guarantee for their commitments. Moreover, it is forbidden to pledge local government property as security for a loan, which means that municipalities and county councils are liable for all obligations they enter into, with all their tax power and their total assets.

At each reporting date, Kommuninvest evaluates whether there is objective evidence that any writedown is necessary for a financial asset or group of assets as the result of one or more events (loss events) occurring after first recognition of the asset, and of these loss events having an impact on the estimated future cash flows relating to the asset or group of assets. Objective evidence constitutes 1) observable conditions that have arisen and that have an adverse impact on the possibility of recovering the acquisition cost, and 2) significant or lengthy reduction of the fair value of an investment in a financial investment classed as an available-for-sale financial asset.

Tangible assets

Tangible fixed assets are recognised as assets in the balance sheet if it is probable that the future economic benefits will flow to Kommuninvest and the cost of the assets can be measured reliably.

Tangible fixed assets are carried at cost less accumulated depreciation.

The recognised value of a tangible fixed asset is derecognised from the balance sheet on scrapping or sale, or when no future economic benefits are expected from its use or the scrapping/sale of the asset. Gain or loss which may arise from the sale or scrapping of an asset constitutes the difference between the sale price and the asset's recognised amount less direct sales costs. Gain and loss are recognised as other operating income/expense.

Depreciation is carried out on a linear basis over the asset's estimated useful life. Kommuninvest calculates a useful life of five years for equipment. Works of art included in the balance sheet are not depreciated.

Pension through insurance

Kommuninvest's pension plans for service pensions under collective agreements are safeguarded through an insurance agreement with SPP.

According to IAS 19, a defined contribution pension plan is a plan for remuneration after termination of employment whereby the Company pays pre-determined fees to a separate legal entity, and has no legal or informal obligation to make further payments if the legal entity has insufficient assets to pay all employee benefits relating to service during the current and earlier periods. A defined benefit pension plan is classed as a different type of plan for post-employment benefit to a defined contribution plan.

The pension plan for Kommuninvest's employees has been

deemed a defined contribution plan encompassing more than one employer. Kommuninvest's pension payments are entered as a cost in the income statement at the rate at which they are earned as employees carry out services for Kommuninvest during a particular period. Premiums are paid to SPP based on the current salary.

In addition to collectively agreed service pensions, Kommuninvest has also made a defined contribution pension obligation to the President in a separate agreement. The pension obligation is invested in an endowment insurance which is recognised in shares and participations. The insurance is also pledged for the pension obligation. With regard to liabilities, the pension obligation is recognised as a provision.

The year's costs for these insurance premiums are shown in Note 7.

General administration expenses

General administration expenses encompass personnel costs, including salaries and emoluments, pension expenses, employer's contributions and other social security contributions. They also include the stability fee, which amounted to SEK 83.6 (41.2) million and accounted for 35 (25) percent of total expenses, as well as costs for consultants, premises, training, IT, telecommunications, travel and entertainment.

Appropriations

Appropriations comprise provisions for and dissolution of untaxed reserves in accordance with Swedish tax law. Twenty-five percent of taxable income may be allocated to an untaxed reserve and must be reversed for taxation within a maximum of six assessment years. The untaxed reserves are recognised in the balance sheet and the change for the year is recognised in the income statement.

Taxes

Tax on profit for the year includes current tax and deferred tax. Income taxes are recognised in the income statement, except when the underlying transaction is recognised directly against other comprehensive income or equity, whereby the corresponding tax is also recognised in other comprehensive income or equity.

Current taxes are taxes that must be paid for the current year. This also includes adjustments to current taxes attributable to previous periods.

Deferred tax is calculated on the basis of temporary differences between reported and tax values of assets and liabilities according to the balance sheet approach.

Group contributions

Kommuninvest recognises Group contributions directly against equity.

3 Financial risks (For information on risk management, see page 40–46)

Credit risk exposure

2011	Total credit risk exposure (before impairment)	Writedown/ Provision	Carrying amount	Value of collateral	Total credit risk exposure after deduction for collateral
Credit against security of:					
Government and municipal guarantees	168,070.5	-	168,070.5	-	168,070.5
Total	168,070.5	-	168,070.5	-	168,070.5
Securities					
Government securities and other public bodies					
- AAA	8,285.9	-	8,285.9	-	8,285.9
- AA	2,555.8	-	2,555.8	-	2,555.8
- A	-	-	-	-	-
Other issuers					
- AAA	26,176.9	-	26,176.9	-	26,176.9
- AA	11,600.3	-	11,600.3	-	11,600.3
- A	3,325.0	-	3,325.0	-	3,325.0
- BBB	-	-	-	-	-
- BB	150.9	-	150.9	-	150.9
Total	52,094.8	-	52,094.8	-	52,094.9
Derivatives					
- AAA	-	-	-	-	-
- AA	5,549.6	-	5,549.6	1,063.5	4,486.1
- A	8,050.1	-	8,050.1	3,206.3	4,843.8
- BBB	87.5	-	87.5	63.3	24.2
Total	13,687.2	-	13,687.2	4,333.1	9,354.1
Obligations					
Committed undisbursed loans against municipal guarantees	1,576.0	-	1,576.0	-	1,576.0
Total	1,576.0	-	1,576.0	-	1,576.0
Total credit risk exposure	235,428.5	-	235,428.5	4,333.1	231,095.4
2010					
	Total credit risk exposure (before impairment)	Writedown/ Provision	Carrying amount	Value of collateral	Total credit risk exposure after deduction for collateral
Credit against security of:					
Government and municipal guarantees	133,729.1	-	133,729.1	-	133,729.1
Total	133,729.1	-	133,729.1	-	133,729.1
Securities					
Government securities and other public bodies					
- AAA	9,939.4	-	9,939.4	-	9,939.4
- AA	2,948.3	-	2,948.3	-	2,948.3
- A	-	-	-	-	-
Other issuers					
- AAA	14,435.1	-	14,435.1	-	14,435.1
- AA	12,345.3	-	12,345.3	496.4	11,848.9
- A	3,676.8	-	3,676.8	-	3,676.8
Total	43,344.9	-	43,344.9	496.4	42,848.5
Derivatives					
- AAA	-	-	-	-	-
- AA	4,605.2	-	4,605.2	2,154.1	2,451.1
- A	8,418.8	-	8,418.8	1,700.2	6,718.5
Total	13,024.0	-	13,024.0	3,854.3	9,169.7
Obligations					
Committed undisbursed loans against municipal guarantees	1,856.0	-	1,856.0	-	1,856.0
Total	1,856.0	-	1,856.0	-	1,856.0
Total credit risk exposure	191,954.0	-	191,954.0	4,350.7	187,603.3

Kommuninvest has no direct exposure to Greece, Ireland, Italy or Portugal. Kommuninvest does have a direct exposure to Spain, consisting of just two investments with the Instituto de Crédito Oficial of USD 80 million and EUR 50 million and maturing in January 2013 and July 2013, respectively. These investments are included above under Other issuers and had an A rating as per 31 December 2011 and an AA rating as per 31 December 2010. Securities with a BB rating as per 31 December 2011 pertain to Exportfinans, which was downgraded from Aa1 to Ba1 by Moody's and from AA to BBB+ by Standard & Poor's in November 2011.

Maturity information¹

2011							
Nominal cash flows – Contractual remaining duration							
Liquidity exposure	On demand	At most 3 mths.	More than 3 mths. but max. 1 yr	More than 1 yr. but max. 5 yrs.	Longer than 5 yrs.	No maturity	Total
Contractual remaining duration							
Assets							
Cash	-	-	-	-	-	-	-
State bonds eligible as collateral	-	6,764.3	856.9	3,206.3	-	-	10,827.5
Lending to credit institutions	1,734.5	-	-	-	-	-	1,734.5
Lending	-	57,314.9	37,459.8	56,894.7	15,729.5	-	167,398.9
Bonds and other interest-bearing securities	-	2,154.8	8,608.8	28,124.1	-	-	38,887.7
Derivatives	-	64,591.8	104,211.5	168,509.1	44,684.1	-	381,996.5
Other assets	-	-	-	-	-	175.8	175.8
Total assets	1,734.5	130,825.8	151,137.0	256,734.2	60,413.6	175.8	601,020.9
Liabilities							
Liabilities to credit institutions	-	-	357.0	840.9	2,728.3	-	3,926.2
Derivatives	-	64,428.3	103,495.8	166,199.5	41,599.5	-	375,723.1
Securities issued	-	47,912.5	69,025.9	83,512.9	18,433.3	-	218,884.6
Subordinated liabilities	-	-	-	-	1,000.0	-	1,000.0
Other liabilities	-	-	-	-	-	568.6	568.6
Equity	-	-	-	-	-	918.4	918.4
Total equity and liabilities	-	112,340.8	172,878.7	250,553.3	63,761.1	1,487.0	601,020.9
Total	1,734.5	18,485.0	-21,741.7	6,180.9	-3,347.5	-1,311.2	0.0
Committed undisbursed loans	1,576.0	-	-	-	-	-	-

2010							
Nominal cash flows – Contractual remaining duration							
Liquidity exposure	On demand	At most 3 mths.	More than 3 mths. but max. 1 yr	More than 1 yr. but max. 5 yrs.	Longer than 5 yrs.	No maturity	Total
Contractual remaining duration							
Assets							
Cash	-	-	-	-	-	-	-
State bonds eligible as collateral	-	6,805.8	2,332.9	3,687.6	-	-	12,826.3
Lending to credit institutions	1,697.6	-	-	-	-	-	1,697.6
Lending	-	74,649.8	9,003.1	42,771.9	7,534.7	-	133,959.5
Bonds and other interest-bearing securities	-	4,571.6	1,791.2	22,214.3	-	-	28,577.1
Derivatives	-	66,952.1	55,616.1	142,982.1	30,643.0	-	296,193.3
Other assets	-	-	-	-	-	102.3	102.3
Total assets	1,697.6	152,979.3	68,743.3	211,655.9	38,177.6	102.3	473,356.1
Liabilities							
Liabilities to credit institutions	-	-	-	1,201.9	2,076.0	-	3,277.9
Derivatives	-	69,189.0	55,712.8	143,009.6	27,328.3	-	295,239.7
Securities issued	-	55,516.4	28,585.6	80,466.0	8,155.3	-	172,723.3
Subordinated liabilities	-	-	-	-	1,002.9	-	1,002.9
Other liabilities	-	-	-	-	-	111.6	111.6
Equity	-	-	-	-	-	1,000.7	1,000.7
Total equity and liabilities	0.0	124,705.4	84,298.5	224,677.4	38,562.5	1,112.3	473,356.1
Total	1,697.6	28,273.9	-15,555.2	-13,021.5	-384.9	-1,010.0	0.0
Committed undisbursed loans	1,856.0	-	-	-	-	-	-

¹ To a large extent, future interest payments involve matching payment flows. These are exclusive of both deposits and outgoing payments.

Maturity information

2011							
Recognised values – Contractual remaining duration							
Liquidity exposure	On demand	At most 3 mths.	More than 3 mths. but max. 1 yr	More than 1 yr. but max. 5 yrs.	Longer than 5 yrs.	No maturity	Total recognised value
Contractual remaining duration							
Assets							
Cash	0.0	-	-	-	-	-	0.0
State bonds eligible as collateral	-	6,765.8	856.7	3,219.2	-	-	10,841.7
Lending to credit institutions	1,734.5	-	-	-	-	-	1,734.5
Lending	-	57,504.7	37,648.4	57,187.5	15,729.9	-	168,070.5
Bonds and other interest-bearing securities	-	2,157.0	8,652.2	28,709.5	-	-	39,518.7
Derivatives	-	1,798.5	1,746.0	4,324.3	5,818.4	-	13,687.2
Other assets	-	-	-	-	-	175.8	175.8
Total assets	1,734.5	68,226.0	48,903.3	93,440.5	21,548.3	175.8	234,028.4
Liabilities							
Liabilities to credit institutions	-	-	357.3	842.2	2,949.9	-	4,149.4
Derivatives	-	504.5	1,642.2	5,192.7	2,015.1	-	9,354.5
Securities issued	-	46,417.6	67,227.1	84,370.0	20,022.7	-	218,037.4
Subordinated liabilities	-	-	-	-	1,000.2	-	1,000.2
Other liabilities	-	-	-	-	-	568.5	568.5
Equity	-	-	-	-	-	918.4	918.4
Total equity and liabilities	-	46,922.1	69,226.6	90,404.9	25,987.9	1,486.9	234,028.4
Total difference	1,734.5	21,303.9	-20,323.3	3,035.6	-4,439.6	-1,311.1	0.0
Committed undisbursed loans	1,576.0	-	-	-	-	-	-

2010							
Recognised values – Contractual remaining duration							
Liquidity exposure	On demand	At most 3 mths.	More than 3 mths. but max. 1 yr	More than 1 yr. but max. 5 yrs.	Longer than 5 yrs.	No maturity	Total recognised value
Contractual remaining duration							
Assets							
Cash	0.0	-	-	-	-	-	0.0
State bonds eligible as collateral	-	6,802.9	2,354.8	3,730.0	-	-	12,887.7
Lending to credit institutions	1,697.6	-	-	-	-	-	1,697.6
Lending	-	74,837.4	9,130.5	42,778.0	6,983.2	-	133,729.1
Bonds and other interest-bearing securities	-	4,571.5	1,816.8	22,371.2	-	-	28,759.5
Derivatives	-	1,507.4	1,661.4	5,987.1	3,868.0	-	13,024.0
Other assets	-	-	-	-	-	102.3	102.3
Total assets	1,697.6	87,719.3	14,963.6	74,866.3	10,851.2	102.3	190,200.2
Liabilities							
Liabilities to credit institutions	-	-	-	1,202.9	2,236.0	-	3,438.9
Derivatives	-	2,119.4	1,487.8	5,114.2	2,072.9	-	10,794.2
Securities issued	-	53,342.0	29,228.9	82,667.4	8,613.7	-	173,852.0
Subordinated liabilities	-	-	-	-	1,002.9	-	1,002.9
Other liabilities	-	-	-	-	-	111.6	111.6
Equity	-	-	-	-	-	1,000.7	1,000.7
Total equity and liabilities	-	55,461.3	30,716.7	88,984.5	13,925.5	1,112.3	190,200.2
Total difference	1,697.6	32,258.0	-15,753.1	-14,118.2	-3,074.3	-1,010.0	0.0
Committed undisbursed loans	1,856.0	-	-	-	-	-	-

Fixed interest terms, Interest exposure

2011	Nominal cash flows						Total
	At most 3 mths	More than 3 mths. but max. 1 yr	More than 1 yr. but max. 5 yrs	More than 5 yr. max. 10 yrs.	More than 10 yrs.	Without interest	
Fixed interest terms for assets and liabilities, interest exposure							
Assets							
Cash	0.0	-	-	-	-	-	0.0
State bonds eligible as collateral	8,666.0	482.5	1,679.2	-	-	-	10,827.7
Lending to credit institutions	1,734.5	-	-	-	-	-	1,734.5
Lending	104,614.7	9,666.2	42,514.4	10,378.6	225.0	-	167,398.9
Bonds and other interest-bearing securities	22,534.5	1,929.7	14,423.5	-	-	-	38,887.7
Derivatives	218,224.3	81,933.4	64,343.4	15,916.0	1,579.2	-	381,996.3
Other assets	-	-	-	-	-	175.8	175.8
Total	355,774.0	94,011.8	122,960.5	26,294.6	1,804.2	175.8	601,020.9
Liabilities							
Liabilities to credit institutions	1,699.2	-	-	2,048.6	178.4	-	3,926.2
Securities issued	68,876.1	68,989.8	64,824.9	14,793.1	1,400.8	-	218,884.7
Derivatives	274,787.5	33,099.7	58,182.1	9,428.7	225.0	-	375,723.0
Subordinated liabilities	1,000.0	-	-	-	-	-	1,000.0
Other liabilities	-	-	-	-	-	568.6	568.6
Equity	-	-	-	-	-	918.4	918.4
Total equity and liabilities	346,362.8	102,089.5	123,007.0	26,270.4	1,804.2	1,487.0	601,020.9
Cumulative exposure	9,411.2	-8,077.7	-46.5	24.2	0.0	-1,311.2	0.0

2010	Nominal cash flows						Total
	At most 3 mths	More than 3 mths. but max. 1 yr	More than 1 yr. but max. 5 yrs	More than 5 yr. max. 10 yrs.	More than 10 yrs.	Without interest	
Fixed interest terms for assets and liabilities, interest exposure							
Assets							
Cash	0.0	-	-	-	-	-	0.0
State bonds eligible as collateral	9,314.6	1,997.7	1,514.0	-	-	-	12,826.3
Lending to credit institutions	1,697.6	-	-	-	-	-	1,697.6
Lending	87,816.9	7,012.4	33,176.5	5,866.7	87.0	-	133,959.5
Bonds and other interest-bearing securities	17,349.8	4,241.3	6,986.0	-	-	-	28,577.1
Derivatives	170,319.9	43,306.1	73,074.1	8,942.6	550.5	-	296,193.3
Other assets	-	-	-	-	-	102.3	102.3
Total	286,498.8	56,557.5	114,750.7	14,809.4	637.5	102.3	473,356.1
Liabilities							
Liabilities to credit institutions	1,201.9	-	-	1,896.6	179.4	-	3,277.9
Securities issued	49,776.9	39,586.0	75,995.6	6,993.7	371.1	-	172,723.3
Derivatives	224,289.4	26,324.2	38,620.1	5,919.0	87.0	-	295,239.7
Subordinated liabilities	1,002.9	-	-	-	-	-	1,002.9
Other liabilities	-	-	-	-	-	111.6	111.6
Equity	-	-	-	-	-	1,000.7	1,000.7
Total equity and liabilities	276,271.0	65,910.2	114,615.7	14,809.4	637.5	1,112.3	473,356.1
Cumulative exposure	10,227.8	-9,352.8	134.9	0.0	0.0	-1,010.0	0.0

Foreign exchange risk¹

2011		Carrying amounts						
Assets and liabilities in major foreign currencies	SEK	EUR	USD	JPY	CHF	Other currencies	Fair value adjustment	Total
Assets								
Lending to credit institutions	1,731.3	0.1	2.9	-	-	0.2	-	1,734.5
Lending	166,615.9	-	-	-	-	-	1,454.6	168,070.5
Interest-bearing securities	20,031.2	8,039.0	21,949.9	-	-	-	340.3	50,360.4
Shares and participations	1.8	-	-	-	-	-	-	1.8
Derivatives	-	-	-	-	-	-	13,687.2	13,687.2
Other assets	172.7	-	1.3	-	-	-	-	174.0
Total assets	188,552.9	8,039.1	21,954.1	-	-	0.2	15,482.1	234,028.4
Liabilities								
Liabilities to credit institutions	482.1	1,395.5	-	2,048.7	-	-	223.1	4,149.4
Securities issued	73,400.2	6,073.5	51,164.8	44,651.5	11,154.1	25,543.0	6,050.3	218,037.4
Derivatives	112,041.2	569.3	-29,213.2	-46,700.2	-11,154.1	-25,543.0	9,354.5	9,354.5
Subordinated liabilities	1,000.2	-	-	-	-	-	-	1,000.2
Other liabilities inc. equity	1,632.7	-	-	-	-	-	-145.8	1,486.9
Total equity and liabilities	188,556.4	8,038.3	21,951.6	0.0	0.0	0.0	15,482.1	234,028.4
Difference, assets and liabilities	-3.5	0.8	2.5	0.0	0.0	0.2	0.0	0.0
Effect (pre-tax) of a 10 percent increase in the SEK exchange rate compared to the foreign currency	-	0.1	0.3	-	-	0.0	-	-

2010		Carrying amounts						
Assets and liabilities in major foreign currencies	SEK	EUR	USD	JPY	CHF	Other currencies	Fair value adjustment	Total
Assets								
Lending to credit institutions	1,571.8	23.8	102.0	-	-	-	-	1,697.6
Lending	133,637.6	-	-	-	-	-	91.5	133,729.1
Interest-bearing securities	16,883.9	6,793.2	17,903.3	-	-	-	66.8	41,647.2
Shares and participations	1.5	-	-	-	-	-	-	1.5
Derivatives	-	-	-	-	-	-	13,024.0	13,024.0
Other assets	99.5	-	1.2	-	0.1	-	-	100.8
Total assets	152,194.3	6,817.0	18,006.5	-	0.1	-	13,182.3	190,200.2
Liabilities								
Liabilities to credit institutions	482.0	899.2	-	1,896.6	-	-	161.1	3,438.9
Securities issued	36,529.2	7,507.0	63,577.3	28,692.4	16,077.6	19,097.8	2,370.6	173,851.9
Derivatives	113,020.6	-1,591.5	-45,577.4	-30,589.0	-16,077.6	-19,097.8	10,706.9	10,794.2
Subordinated liabilities	1,002.9	-	-	-	-	-	-	1,002.9
Other liabilities inc. equity	1,168.0	0.6	-	-	-	-	-56.3	1,112.3
Total equity and liabilities	152,202.7	6,815.3	17,999.9	0.0	0.0	0.0	13,182.3	190,200.2
Difference, assets and liabilities	-8.4	1.7	6.6	0.0	0.1	0.0	0.0	0.0
Effect (pre-tax) of a 10 percent increase in the SEK exchange rate compared to the foreign currency	-	0.2	0.7	-	0.0	-	-	-

¹ Kommuninvest has elected to present total fair value adjustments by balance sheet item rather than by currency since currency risk is assessed on the basis of contracted payment flows.

Member responsibilities

Municipalities and county councils that are members of the Kommuninvest Cooperative Society have entered a joint and several guarantee covering all of the Company's commitments. Kommuninvest's operations have changed considerably since the inception of the Company in 1986. The Company borrows funds in advance to be prepared for members' borrowing needs and to meet requirements imposed by authorities and rating institutes, and it uses hedging instruments (derivatives) to mitigate the risks in its operations.

In 2010, two agreements were prepared in addition to the basic joint and several guarantee to clarify the responsibility of the members. One is a guarantee agreement regulating the responsibility for counterparty exposures in derivatives and replaces earlier clauses in the documentation of loans. The other is an updated recourse agreement that details the members' mutual responsibility. The agreements clarify and replace the previous responsibility according to the recourse agreement and promissory note terms. The agreements were adopted by the member authorities individually during 2011.

The distribution of responsibility has been communicated twice annually to members by means of a statement of undertaking based on each member's proportional participation in Kommuninvest's total lended borrowing, and its share of the total capital contributed to the Kommuninvest Cooperative Society.

The statement of undertaking is based on the following items in Kommuninvest's balance sheet as per 31 December 2011 (SEK million).

Liabilities to credit institutions	4,149.4
Securities issued	218,037.4
Total borrowing	222,186.8

LIABILITIES, according to statement of undertaking

Loaned borrowing (1)	170,091.9	
Borrowing not loaned (2)	52,094.9	
Total borrowing	222,186.8	in accordance with the above

Other liabilities (2)	568.5
Derivatives, connected with loaned borrowing (1)*	3,492.0
Total liabilities/undertaking	226,247.3

ASSETS, according to statement of undertaking

Loaned borrowing (1)	168,070.5	see Note 12
Borrowing not loaned (2)	52,094.9	see Notes 3, 11, 13
Other assets (2)	175.8	
Derivatives, connected with loaned borrowing (1)*	1,821.8	
Total assets	222,163.0	

Basis for distribution:

1. Percentage equivalent to each member's participation in Kommuninvest's loaned borrowing.
2. Percentage equivalent to each member's participation in the total capital contributed to the Kommuninvest Cooperative Society.

* The derivatives (hedging contracts) are included gross in the Company's balance sheet (see Note 3), that is contract by contract, and are recognized as an asset when Kommuninvest has a claim against the counterparty and as a liability when the counterparty has a claim against Kommuninvest. In the statement of undertaking, the derivatives are recognized net per counterparty, that is, claims against the same counterparty have been netted against liabilities to the same counterparty. In addition, the derivatives recognised above as assets have been reduced by collateral received, such as government bonds. At 31 December 2011, collateral received amounted to SEK 4,333.0 (3,854.3) million and may only be used to cover outstanding exposures. These are disclosed in Note 3 of the Company's annual report but may not be reduced in the balance sheet. The Company currently has no pledges for liabilities in connection with derivatives.

4 Net interest income

	2011	2010
Interest revenues		
Lending to credit institutions	57.1	10.8
Lending	4,309.7	2,519.0
Interest-bearing securities	1,034.8	494.8
Other	0.0	0.5
Total	5,401.6	3,025.0
Of which: interest income from financial items not measured at fair value through profit or loss	3,339.6	897.0
Interest expenses		
Liabilities to credit institutions	0.6	0.8
Interest-bearing securities	4,804.6	2,585.8
Other	23.8	6.3
Total	4,829.0	2,593.0
Of which: interest expense from financial items not measured at fair value through profit or loss	2,956.2	1,541.7
Total net interest income	572.6	432.1

5 Commission expenses

	2011	2010
Payment agency commissions	1.8	1.2
Brokerage for securities	6.4	3.2
Other commissions	0.4	0.0
Total	8.6	4.4

6 Net result of financial transactions

	2011	2010
Result from buyback of own bonds	55.8	70.9
Interest-bearing securities	0.2	-0.9
Other financial instruments	2.9	32.5
Unrealised changes in market value	13.2	-86.5
Exchange rate changes	0.0	1.2
Total	72.1	17.2

	2011	2010
Net gain/loss by measurement category		
Financial assets at fair value through profit or loss	1,399.0	-952.1
Holdings for trading purposes (assets)	-1,209.8	-1,085.2
Loans and receivables	-1.8	17.6
Financial liabilities at fair value through profit or loss	2,268.2	861.3
Holdings for trading purposes (liabilities)	-2,469.7	1,244.0
Capital gains/losses on available-for-sale financial assets	0.2	-0.9
Change in fair value of derivatives that are hedging instruments in fair value hedge	1,243.7	396.3
Change in fair value on hedged item with regard to hedged risk in fair value hedges	-1,157.7	-465.0
Exchange rate changes	0.0	1.2
Total	72.1	17.2
Net result of available-for-sale financial assets recognised in other comprehensive income	-103.3	-71.4

7 General administration expenses

In SEK, thousands

	2011	2010
Payroll expenses		
- salaries and emoluments	40,664	32,907
- social security charges	12,360	10,600
- variable performance benefit	-	917
- pension expenses	6,829	6,288
- special payroll tax on pension expenses	1,609	1,484
- education/training costs	1,885	1,761
- other personnel expenses	3,568	4,415
Total personnel costs	66,915	58,372
Other general administration expenses		
- travel expenses	4,008	5,438
- IT expenses	17,303	13,560
- consultancy fees	24,946	18,233
- temporary/contract personnel	2,821	3,355
- rating expenses	7,347	5,544
- market data	3,959	3,525
- rent and other expenses for premises	2,700	2,167
- annual and interim reports	2,463	866
- stability fee	83,633	41,230
- other	13,943	8,205
Total other general administration expenses	163,123	102,123
Total	230,038	160,495

Remuneration policy

The Company has a pre-existing remuneration policy which was updated in 2011. The remuneration policy states that Komminvest does not apply variable remuneration. No variable remuneration was paid to employees of Komminvest for 2011.

Remuneration to senior executives

Remuneration for the President and CEO has been decided by the Board. For 2011, The President and CEO received SEK 2,624,000 (2,596,000) in basic salary. No variable remuneration was paid. Pension expenses for the President and CEO amounted to SEK 755,000 (598,000) and are covered by insurance. Part of the insurance cost relates to endowment insurance for pension obligations. The obligation contains survivors' protection. The

pension is vested, i.e. not conditional on future employment. For termination initiated by the Company, salary will continue to be paid for the duration of the 6-month notice period, along with severance pay of 18 months reduced by an amount corresponding to new income if a new position is obtained.

Remuneration for the Deputy CEO has been decided by the President after consultation with the Board Chairman. For 2011, the Deputy CEO received SEK 1,832,000 (1,427,000) in basic salary. No variable remuneration was paid. Pension expenses for the Deputy CEO amounted to SEK 442,000 (335,000) and are covered by insurance. For termination initiated by the Company, salary will continue to be paid for the duration of the 6-month notice period, along with severance pay of 18 months reduced by an amount corresponding to new income if a new position is obtained.

The group of employees categorised as other senior executives was extended from two to three persons effective from 7 November 2011. Remuneration details regarding other senior executives only include remunerations paid during the period in which each individual has been a senior executive. Remuneration to other senior executives in the corporate management, 3 (2), of whom 1 (1) woman and 2 (1) men, has been determined by the President. One of the senior executives has an agreement concerning a conditional salary with deferred payment. The total amount of the remuneration for these people amounted to SEK 4,057,000 (2,478,000). The pension expenses are covered through insurance.

Remuneration for Board of Directors		2011	2010
Björn Börjesson	From 7 April 2011	300	-
Ellen Bramness Arvidsson		257	283
Ingemar Alserud	Until AGM, 25 March 2010	-	31
Lorentz Andersson		137	126
Kurt Eliasson	From AGM, 25 March 2010	117	94
Anna von Knorring		137	90
Catharina Lagerstam		119	110
Tommy Persson	Until 1 June 2010	-	200
Kerstin Ryding	Until AGM, 25 March 2010	-	55
Anna Sandborgh	From AGM, 25 March 2010	137	102
Johan Törngren		137	94
Total		1,341	1,185

Wages and remunerations

	Basic salary / Board fee	Variable pay	Other benefits	Pension expense	Other remuneration	Total
2011						
Board of Directors	1,341	-	-	-	1	1,342
President and CEO	2,624	-	83	755	-	3,462
Deputy CEO	1,832	-	-	442	-	2,274
Other members of Company management	4,057	-	5	944	-	5,006
Other salaried employees	30,810	-	200	4,688	-	35,698
Total	40,664	-	288	6,829	1	47,782
2010						
Board of Directors	1,185	-	-	-	1	1,186
President and CEO	2,596	-	82	598	-	3,276
Deputy CEO	1,427	-	-	335	-	1,762
Other members of Company management	2,478	-	-	777	-	3,255
Other salaried employees	25,221	917	186	4,578	-	30,902
Total	32,907	917	268	6,288	1	40,381

According to the Board's work procedures, as adopted in 2011, the Chairman of the Board is responsible for ensuring that the Company's remuneration policy is independently reviewed and for preparing Board decisions regarding a) remunerations to senior executives, b) remunerations to employees with overarching responsibility for any of the Company's control functions, and c) measures for following-up the application of the Company's remuneration policy.

Remuneration to the Board of Directors

At the end of the year, the Board of Directors comprised 8 (7) members, of whom 4 (4) were women.

Remuneration to the Board, within the framework of the Board fees approved by the Annual General Meeting, is shown on page 70. The Chairman of the Board is paid a fixed fee of SEK 400,000. The Deputy Chairman received a fixed fee of SEK 100,000 and a variable fee of SEK 10,000 per meeting. Other Board members received a fixed fee of SEK 50,000 and a variable fee of SEK 10,000 per meeting.

Kommuninvest does not have any pension obligations or any particular conditions of notice for the Board of Directors.

Average number of employees	2011	2010
Average number of employees during the year	58	49
- of whom women	24	21

Emoluments and costs for the auditors	2011	2010
Ernst & Young AB		
Auditing engagement	932	688
Other audit services	316	476
Other services	603	843

Audit engagement refers to the audit of the annual report and the bookkeeping and administration by the Board of Directors and President, other tasks that are the responsibility of Kommuninvest i Sverige AB's auditors, and other advice or assistance brought about by observations from such audits and/or performance of other tasks. Other audit services refers to quality assessment services, such as reviews resulting in reports or attestations intended for recipients including others than the client. Other services refers to those not included in any of the above.

Operating leases where Kommuninvest i Sverige AB is the lessee	2011	2010
Non-cancellable lease payments amount to:		
Within one year	3,398	1,762
Between one and five years	7,386	4,327
More than five years	12	100
Total	10,796	6,189

Expenses over the year amounted to 2,722 (1,808).

8 Other operating expenses

	2011	2010
Insurance expenses	0.5	0.2
Communication and information	6.3	5.5
Capital loss on divestment of tangible assets	-	0.3
Other operating expenses	0.8	0.2
Total	7.6	6.2

9 Appropriations

	2011	2010
Transfer to tax allocation reserve	-	-88.1
Reversal of tax allocation reserve	13.9	4.9
Total	13.9	-83.2

10 Taxes

Recognised in income statement	2011	2010
Current tax expense	105.9	74.6
Deferred tax expense (+) / income (-) on temporary differences	3.5	-22.7
Total tax expense recognised	109.4	51.9

Reconciliation of effective tax	2011%	2011	2010%	2010
Profit/loss before tax		410.0		192.5
Tax according to prevailing tax rate	26.3%	107.8	26.3%	50.6
Non-deductible expenses	0.1%	0.4	0.6%	1.2
Standard interest on tax allocation reserve	0.3%	1.2	0.0%	0.0
Recognised effective tax	26.7%	109.4	26.9%	51.9

Tax expense attributable to other comprehensive income	2011	2010
Available-for-sale financial assets	-26.1	-17.7
Loans and receivables	-1.1	-1.1
Total other comprehensive income	-27.2	-18.8

Recognised in the balance sheet

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities relate to the following:

	Deferred tax assets		Deferred tax liabilities		Net	
	2011	2010	2011	2010	2011	2010
Unrealised changes in market value	38.4	14.6	-	-	38.4	14.6
Tax assets/liabilities, net	38.4	14.6	-	-	38.4	14.6

Deferred tax assets are recognised as other assets and deferred tax liabilities are recognised as other liabilities.

Tax items entered directly against equity	2011	2010
Current tax on Group contributions paid	105.9	5.1
Total sum entered directly against equity	105.9	5.1

11 State bonds eligible as collateral

	2011			2010		
	Cost	Fair value	Carrying amount	Cost	Fair value	Carrying amount
State bonds eligible as collateral						
- Swedish central government	7,812.5	7,829.5	7,829.5	8,059.1	8,065.8	8,065.8
- Swedish municipalities	2,325.9	2,341.6	2,341.4	4,096.6	4,142.2	4,141.2
- Foreign governments	689.2	670.8	670.8	670.6	680.7	680.7
Total	10,827.6	10,841.9	10,841.7	12,826.3	12,888.7	12,887.7
Positive difference of book values exceeding nominal values			36.7			69.1
Negative difference of book values falling below nominal values			-31.5			-22.3

Carrying amount differs from fair value because assets reclassified as loans and receivables (see Note 26) are recognised at amortised cost. In Kommuninvest's assessment, no writedowns were required as per 31 December 2011.

12 Lending

Lending refers to lending to municipalities and county councils, as well as to companies owned by municipalities and county councils. Approximately 43.5 (38.1) percent of total lending is direct to municipalities and county councils that are members of the Kommuninvest Cooperative Society. The remainder is to their corporations, which have municipal guarantees, and are mainly municipal housing corporations 32.3 (39.2) percent and other companies with municipal guarantees 24.2 (22.7) percent. In Kommuninvest's assessment, no writedowns were required as per 31 December 2011.

13 Bonds and other interest-bearing securities

	2011			2010		
	Cost	Fair value	Carrying amount	Cost	Fair value	Carrying amount
Bonds and other interest-bearing securities						
- Swedish housing finance institutions	733.7	757.0	757.0	1,201.1	1,221.0	1,221.0
- Other Swedish issuers	8,717.3	9,140.2	9,140.2	4,937.3	4,979.7	4,980.1
- Other foreign issuers	29,436.7	29,614.8	29,621.5	22,438.7	22,548.2	22,558.5
Total	38,887.7	39,512.0	39,518.7	28,577.1	28,748.9	28,759.5
Positive difference of book values exceeding nominal values			797.9			273.3
Negative difference of book values falling below nominal values			-134.7			-78.8

Carrying amount differs from fair value because assets reclassified as loans and receivables (see Note 26) are recognised at amortised cost. In Kommuninvest's assessment, no writedowns were required as per 31 December 2011.

14 Shares and participations

	2011	2010
Endowment insurance	1.3	1.0
Total shares and participations	1.3	1.0

15 Shares and participations in associated companies

Administrative Solutions NLGFA AB, holding 50%.
Reg. no: 556581-0669

	2011	2010
	0.5	0.5
	0.5	0.5

16 Tangible assets

	2011	2010
<i>Acquisition value</i>		
Acquisition value brought forward	14.6	10.3
Investments for the year	2.3	6.4
Disposals	-	-2.1
Acquisition value carried forward	16.9	14.6
<i>Depreciation</i>		
Opening balance, depreciation	-7.7	-6.7
Depreciation for the year	-2.5	-2.7
Disposals	-	1.7
Depreciation carried forward	-10.2	-7.7
Residual value at the end of the accounting period	6.7	6.9

17 Other assets

	2011	2010
Tax assets	79.0	-
Deferred tax assets	38.4	-
Other assets	30.9	67.5
Total	148.3	67.5

18 Other liabilities

	2011	2010
Tax liabilities	-	60.7
Deferred tax liabilities	-	-14.6
Liabilities to parent society	382.6	7.7
Other liabilities	72.8	12.6
Total	455.4	66.4

19 Accrued expenses and prepaid revenues

	2011	2010
Accrued interest expenses	83.8	34.0
Other accrued expenses	27.7	10.1
Total	111.5	44.1

20 Provisions for pensions and similar commitments

	2011	2010
Provision for pension obligations	1.6	1.2
Total	1.6	1.2

21 Subordinated liabilities

	Currency	Nom	Interest rate (%)	Due date	Carrying amount	
					2011	2010
Debenture	SEK	1,000.0	Variable	Perpetual	1,000.2	1,002.9
Total		1,000.0			1,000.2	1,002.9

Perpetual debenture with three-month variable Stibor-linked interest. The terms only allow repayment or repurchase on the approval of the Swedish Financial Supervisory Authority. At the earliest, however, this may occur on the interest date five years after the loan date and thereafter on each subsequent interest date. The interest expense for the year totalled SEK 42.7 (2.9) million.

If the loan is not permitted for inclusion in the Company's capital base, it may be repaid at any point in its duration. The holder may not transfer the debenture or his/her rights in any other way. The general guarantee undertaking issued by the members of the Kommuninvest Cooperative Society to cover the undertakings of Kommuninvest cannot be invoked regarding the debenture loan.

22 Untaxed reserves

Tax allocation reserves	2011	2010
2006 tax assessment	-	13.8
2007 tax assessment	7.0	7.0
2008 tax assessment	4.7	4.7
2009 tax assessment	18.5	18.6
2010 tax assessment	85.7	85.7
2011 tax assessment	88.1	88.1
Total untaxed reserves	204.0	217.9

23 Pledged assets

	2011	2010
<i>In the form of assets pledged for own provisions and liabilities</i>		
Government securities pledged with the Riksbank	3,515.6	4,807.2
Endowment insurance for pension obligations	1.3	1.0
Assets pledged, total	3,516.9	4,808.2

The recognised value of liabilities and provisions involving pledges amounted to SEK 1.6 (1.2) million. To qualify for participation in RIX, the Riksbank's system for the transfer of account funds, Kommuninvest is required to pledge government securities with the Riksbank.

24 Related parties

In SEK, thousands

Related parties

Kommuninvest has a close association with the Kommuninvest Cooperative Society (parent company), Kommuninvest Fastighets AB (affiliate company) and Administrative Solutions NLGFA AB (associated company).

Related party	Years	Sales of goods/services to related parties	Purchase of goods/services from related parties	Other (interest)	Receivables from related parties on 31 December	Liabilities to related parties on 31 December
Kommuninvest Cooperative Society	2011	318	388	42,711	295	1,382,811
	2010	10	-	2,900	-	1,010,602
Kommuninvest Fastighets AB	2011	63	2,093	-	-	-
	2010	60	1,613	-	-	40
Administrative Solutions NLGFA AB	2011	31	13,796	92	8,380	-
	2010	30	10,489	27	4,005	-

Transactions with related parties are priced in accordance with market conditions.

Transactions with key people in senior positions

With regard to salaries, other remuneration and pensions for key people in management positions, please see Note 7.

25 Events after the balance sheet date

The Company has been subject to two lawsuits before a court of justice. Both disputes have concerned the same bond issue. The main hearing was held in November, 2011. The court ruling, issued on February 24, 2012, dismissed the plaintiff's claims on all accounts.

Effective from 1 January 2012, Kommuninvest i Sverige AB has acquired all of the outstanding shares in Kommuninvest Fastighets AB from the Kommuninvest Cooperative Society. The acquisition cost totalled SEK 32 million. Kommuninvest Fastighets AB owns and manages the building in Örebro in which Kommuninvest i Sverige AB conducts its operations.

26 Financial assets and liabilities

	Financial assets at fair value through profit or loss. Financial assets designated to belong to this category	Financial assets at fair value through profit or loss. Held for trade	Loans and receivables	Investments held to maturity
2011				
Cash	-	-	-	-
State bonds eligible as collateral	2,166.6	-	200.2	-
Lending to credit institutions	-	-	1,734.5	-
Lending	51,785.7	-	116,284.8	-
Bonds and other interest-bearing securities	16,278.5	516.1	3,929.3	-
Derivatives	-	9,113.6	-	-
Other assets	-	-	29.7	-
Total	70,230.8	9,629.7	122,178.5	-
Liabilities to credit institutions	-	-	-	-
Securities issued	-	-	-	-
Derivatives	-	-	-	-
Other liabilities	-	-	-	-
Subordinated liabilities	-	-	-	-
Total	-	-	-	-
2010				
Cash	-	-	-	-
State bonds eligible as collateral	1,886.9	-	699.5	-
Lending to credit institutions	-	-	1,697.6	-
Lending	52,369.9	-	81,359.2	-
Bonds and other interest-bearing securities	7,798.1	1,531.3	4,549.9	-
Derivatives	-	9,755.8	-	-
Other assets	-	-	11.1	-
Total	62,054.9	11,287.1	88,317.3	-
Liabilities to credit institutions	-	-	-	-
Securities issued	-	-	-	-
Derivatives	-	-	-	-
Other liabilities	-	-	-	-
Subordinated liabilities	-	-	-	-
Total	-	-	-	-

The carrying amount for lending consists of lending recognised at amortised cost, lending included in a fair value hedging relation and lending recognised at fair value. Fair value differs from the carrying amount as it relates to fair value for all groups.

The carrying amount for state bonds eligible as collateral and bonds and other interest-bearing securities differ from fair value due to reclassification from available-for-sale financial assets to loans and receivables.

The carrying amount for liabilities to credit institutions and securities issued is composed partly of liabilities recognised at amortised cost, liabilities in a fair value hedging relation and liabilities recognised at fair value. Fair value differs from the carrying amount as it relates to fair value for all groups.

Available-for-sale financial assets	Financial liabilities at fair value through profit or loss. Financial liabilities designated as belong to this category	Financial liabilities at fair value through profit or loss. Held for trade	Other financial liabilities	Derivatives that are used for hedge accounting	Total carrying amount	Fair value
-	-	-	-	-	0.0	0.0
8,474.9	-	-	-	-	10,841.7	10,841.9
-	-	-	-	-	1,734.5	1,734.5
-	-	-	-	-	168,070.5	168,080.8
18,794.8	-	-	-	-	39,518.7	39,512.1
-	-	-	-	4,573.6	13,687.2	13,687.2
-	-	-	-	-	29.7	29.7
27,269.7	-	-	-	4,573.6	233,882.3	233,886.2
-	2,949.9	-	1,199.5	-	4,149.4	4,148.3
-	81,343.8	-	136,693.6	-	218,037.4	218,340.4
-	-	8,015.5	-	1,339.0	9,354.5	9,354.5
-	-	-	431.0	-	431.0	431.0
-	-	-	1,000.2	-	1,000.2	1,000.2
-	84,293.7	8,015.5	139,324.3	1,339.0	232,972.5	233,274.4
-	-	-	-	-	0.0	0.0
10,301.2	-	-	-	-	12,887.7	12,888.7
-	-	-	-	-	1,697.6	1,697.6
-	-	-	-	-	133,729.1	133,667.0
14,880.3	-	-	-	-	28,759.5	28,748.9
-	-	-	-	3,268.2	13,024.0	13,024.0
-	-	-	-	-	11.1	11.1
25,181.6	-	-	-	3,268.2	190,109.0	190,037.2
-	2,236.0	-	1,202.9	-	3,438.9	3,436.6
-	69,610.7	-	104,241.2	-	173,851.9	173,945.9
-	-	9,298.6	-	1,495.6	10,794.2	10,794.2
-	-	-	14.1	-	14.1	14.1
-	-	-	1,002.9	-	1,002.9	1,002.9
-	71,846.7	9,298.6	106,461.1	1,495.6	189,102.0	189,193.7

Certain disclosures regarding financial instruments recognised at fair value in the Balance Sheet.

The tables below provides information on how fair value was determined for the financial instruments valued at fair value in the balance sheet. The distribution of how fair value was determined takes place on the basis of the following three levels.

Level 1: value is determined according to prices quoted in an active market for the same instrument. This level includes treasury

bills and standardised derivatives where the quoted price is used in the valuation.

Level 2: value is determined on the basis of directly or indirectly observable market data not included in level 1. This level includes lending, less liquid investments and borrowing. It also includes derivatives where the valuation is based on observable price quotes.

Level 3: value is determined on the basis of input data that are not observable in the market, with the Company's own estimates playing a certain role.

2011	Level 1	Level 2	Level 3	Total
State bonds eligible as collateral	5,177.0	5,464.5	-	10,641.5
Lending	-	51,785.7	-	51,785.7
Bonds and other interest-bearing securities	5,586.7	29,851.9	150.9	35,589.5
Derivatives	3.1	11,102.9	2,581.2	13,687.2
Total	10,766.8	98,205.0	2,732.1	111,703.9
Liabilities to credit institutions	-	2,721.2	228.7	2,949.9
Securities issued	-	48,717.8	32,626.0	81,343.8
Derivatives	4.7	7,371.8	1,978.0	9,354.5
Total	4.7	58,810.8	34,832.7	93,648.2

In 2011, SEK 2,775.0 million was transferred from level 2 to level 1. This primarily involved bonds and basis swaps.

2010	Level 1	Level 2	Level 3	Total
State bonds eligible as collateral	7,243.5	4,944.7	-	12,188.2
Lending	-	52,369.9	-	52,369.9
Bonds and other interest-bearing securities	-	24,209.7	-	24,209.7
Derivatives	18.3	8,888.4	4,117.3	13,024.0
Total	7,261.8	90,412.7	4,117.3	101,791.8
Liabilities to credit institutions	-	2,236.0	-	2,236.0
Securities issued	-	39,198.1	30,412.6	69,610.7
Derivatives	13.2	8,341.5	2,439.5	10,794.2
Total	13.2	49,775.6	32,852.1	82,640.9

Calculation of fair value

As only a small part of Kommuninvest's financial instruments are traded on an active market at listed prices as per level 1, accepted and well established valuation techniques are primarily used to determine fair value. These valuation techniques are based on observable market information in accordance with valuation level 2. The valuation techniques applied are based on discounted cash flows and prices from the primary and secondary markets.

Lending

Fair value has been calculated via a discount of anticipated future cash flows, the discount rate being set to the swap rate adjusted by current new lending margins. This calculation technique means that when the new lending margin rises, a lower fair value arises for previous lending, and vice versa. Kommuninvest's lending is focused solely on members of Kommuninvest Cooperative Society and to its members' majority-owned companies.

State bonds eligible as collateral, and bonds and other interest-bearing securities

Liquid investments are valued on the basis of quoted market prices in level 1. For less liquid investments, fair value has been calculated via a discount of anticipated future cash flows, the discount rate being set to the swap rate adjusted on the basis of the issuer's credit risk. These are classified in level 2. Most of the investments are with the Swedish State, state-guaranteed financial institutions within the OECD and banks in the Nordic region. Kommuninvest holds no positions in structured credit products such as ABS, Asset-Backed Securities, or CDOs, Collateralised Debt Obligations.

Kommuninvest also has an investment in Eksportfinans (Norway) that is assessed according to level 3 due to lack of observable market data.

Borrowing and borrowing derivatives

Since borrowing is hedged against the various market risks using borrowing derivatives, the same principles are applied in calculating

Changes in level 3

The table below presents a reconciliation of opening and closing balances for financial instruments recognised at fair value in the balance sheet based on an assessment technique proceeding from non-observable input data (level 3).

	Bonds and fixed-income securities	Derivative assets	Derivative liabilities	Liabilities to credit institutions	Securities issued	Total
Opening balance, 1 January 2010	-	2,604.5	-2,732.4	-	-11,489.6	-11,617.5
Recognised gains and losses:						
- recognised in income for the year	-	1,832.5	345.2	-	-2,162.8	14.9
Cost, acquisitions	-	-234.2	-52.1	-	-20,092.0	-20,378.3
Maturing during the year	-	-85.5	-0.2	-	3,331.8	3,246.1
Closing balance, 31 December 2010	-	4,117.3	-2,439.5	-	-30,412.6	-28,734.8
Gains and losses recognised in income for the year included in the closing balance as per 31 December 2010	-	2,412.5	-454.7	-	-1,937.5	20.3
Opening balance, 1 January 2011	-	4,117.3	-2,439.5	-	-30,412.6	-28,734.8
Transfer out from level 3	-	-353.2	174.0	-	2,115.0	1,935.8
Transfer to level 3	164.4	-	-	-196.0	-	-31.6
Recognised gains and losses:						
- recognised in income for the year	-13.5	-1,416.5	236.6	-32.7	1,235.7	9.6
Cost, acquisitions	-	-0.1	-0.6	-	-18,288.0	-18,288.7
Maturing during the year	-	233.7	51.5	-	12,723.9	13,009.1
Closing balance, 31 December 2011	150.9	2,581.2	-1,978.0	-228.7	-32,626.0	-32,100.6
Gains and losses recognised in income for the year included in the closing balance as per 31 December 2011	-13.5	-285.8	-973.0	-32.7	1,188.1	-116.9

the fair value of the Company's borrowing and credit swaps based on the structure of the borrowing instruments and their market. Borrowing and derivatives have been measured at the applicable quoted swap rate, adjusted by relevant borrowing margins. Borrowings where the valuation includes the Company's own assessments, is valued according to level 3. The same assessments have been made for both the borrowing itself and the matching swaps since they both have the same structure. Other borrowing and borrowing derivatives are valued according to level 2. Derivatives are reported as assets when they have a positive market value, and as liabilities when they have a negative market value.

Derivatives

Other derivatives are used to hedge currency and interest risks. Standardised derivatives in the form of FRA contracts traded in an active market are valued according to level 1. Non-standardised derivatives (OTC) are recognised at fair value according to level 2. Fair value has then been calculated via a discount of anticipated future cash flows, the discount rate being set to the current listed swap rate for the derivative. Derivatives are reported as assets when they have a positive market value, and as liabilities when they have a negative market value.

Significant assumptions and uncertainty factors

Kommuninvest has applied the valuation techniques best deemed to reflect the value of the Company's assets and liabilities. Chang-

es in underlying market data could mean changes to the income statement and balance sheet in respect of unrealised market values. The valuation curves are also determined on the basis of current borrowing and lending margins, increased margins on lending leading to unrealised losses when the value of existing business is reduced. Kommuninvest has only a marginal exposure to interest risk and, since it hedges other market risks, it is changes in credit spreads that give rise to the changes in market value.

An increase in the lending margin by 10 basis points on Kommuninvest's lending to municipalities would mean a change in income of SEK -117 (-141) million. An increase in the borrowing margin by 10 basis points on the liabilities recognised at fair value category would mean a change in income of SEK +213 (+133) million. A parallel displacement in the borrowing and lending price by 10 basis points would mean a change in income of SEK +/- 96 (+/- 8) million.

A shift of the valuation curve upwards or downwards by 10 basis points for the financial instruments valued according to level 3 would mean a change in income of SEK +/- 45 (+/-52) million. All of the above changes pertain to the balance sheet date and are net of tax effects. Impact on equity includes the tax effect.

All market value effects are unrealised, and as Kommuninvest intends to hold its assets and liabilities to maturity, Kommuninvest does not intend to realise these values.

Reclassification

Reclassification has taken place on 10 November 2008 of assets in the form of interest-bearing securities, recorded previously in the financial assets available for sale to the category loans and receivables. As this reclassification has been made from financial assets available for sale, the income statement is not affected by changes in value recorded in other comprehensive income.

31 Dec 2011

Had this reclassification not taken place, equity would have been affected negatively by SEK 6.5 million in the fund for fair value as at 31 December 2011. This means that over the year, the fund for fair value would have improved by SEK 3.2 million in respect of the reclassified securities.

Interest revenues amounting to SEK 20.4 million has been recognised in the income statement for the period 1 January – 31 December with regard to the reclassified assets.

	31 December 2011		31 December 2010	
	Book value	Fair value	Book value	Fair value
Interest-bearing securities	4,129.5	4,123.0	5,249.4	5,239.7

31 Dec 2010

Had this reclassification not taken place, equity would have been affected negatively by SEK 9.7 million in the fund for fair value as at 31 December 2010. This means that over the year, the fund for fair value would have improved by SEK 18.2 million in respect of the reclassified securities.

Interest revenues amounting to SEK 25.9 million has been recognised in the income statement for the period 1 January – 31 December with regard to the reclassified assets.

	31 December 2010		31 December 2009	
	Book value	Fair value	Book value	Fair value
Interest-bearing securities	5,249.4	5,239.7	5,598.8	5,570.8

All assets are of high quality, mostly 0 percent risk-weighted, interest payments are being made according to plan and Kommuninvest is of the view that a nominal amount will be received on the due date.

27 Capital adequacy

Capital adequacy

For the establishment of statutory capital requirements, the Capital Adequacy and Large Exposures Act (2006:1371) applies, along with Swedish Financial Supervisory Authority Regulations and general guidelines regarding capital adequacy and large exposures (FFFS 2007:1).

As far as Kommuninvest i Sverige AB is concerned, these regulations contribute to greater resistance against financial losses, thereby protecting customers. The regulations mean that Kommuninvest i Sverige AB's capital base (equity) should on the one hand cover with a good margin the prescribed minimum capital requirements, which include the capital requirements for credit risks, market risks and operational risks, and should also encompass the estimated capital requirements for other risks identified in the operation in accordance with the chosen principles for capital assessment. For capital requirements above minimum level (Pillar 1), amounts have been allocated for the following other risks (Pillar 2): Credit risk, market risk, operational risk, interest risk, business risk, reputation risk and strategic risk. Kommuninvest has set an internal capital adequacy quota which includes all risks in the operation in accordance with Pillars 1 and 2 and also an additional risk area as a buffer for risks not calculated for Pillars 1 and 2. This quota is a minimum and must be complied with unless internal approval is given for non-compliance.

Kommuninvest i Sverige AB has a set plan (the capital plan) regarding the size of the capital base for several years ahead, which is based on

- risk profile,
- identified risks with regard to probability and financial impact,
- stress tests and scenario analyses,
- anticipated lending expansion and financing opportunities, and
- new legislation and other external factors.

Reviewing the capital plan is an integral part of Kommuninvest i Sverige AB's work on the annual operations plan and budget. The plan is followed up annually or as required when an annual review is carried out to ensure that the risks are correctly assessed and reflect Kommuninvest i Sverige AB's true risk profile and capital requirement.

In its overall assessment, the Board has found that the capital requirements arising as a consequence of the risks (Pillars 1 and 2) identified in a reasonable manner are covered within the scope of current capital.

As with major credit decisions and investments, any change or addition to a policy or strategy document adopted by the Board must always be related to the institute's current and future capital requirements.

Information on Kommuninvest i Sverige AB's risk management can be found in the administration report and in Note 3.

Kommuninvest i Sverige AB has opted in this annual report only to provide the information required on capital base and capital requirements in accordance with Chapter 3, §§ 1-2 and Chapter 4 of the regulations and general recommendations of the Swedish Financial Supervisory Authority regarding disclosure of information on capital adequacy and risk management (FFFS 2007:5). Other disclosures required by these regulations can be found on the Kommuninvest i Sverige AB's website: www.kommuninvest.se.

Kommuninvest i Sverige AB's statutory capital requirements in line with Pillar 1 of the capital adequacy regulations can be summarised as follows, with specifications as per the sections below:

Tier 1 capital	2011	2010
Share capital	292.4	288.5
Statutory reserve	17.5	17.5
Profit brought forward	191.6	347.6
Income for the year	300.6	140.6
Less deferred tax assets	-7.2	-10.6
Untaxed reserves	150.3	160.6
Net capital base	945.2	944.2
Supplementary capital		
Perpetual debenture loan	945.2	944.2
Total supplementary capital	945.2	944.2
Total capital base	1,890.4	1,888.4
Total capital requirement, credit risk		
Capital requirement for credit risks (the standardised method)	250.9	129.0
Capital requirement for risks in trading operations	2.3	4.3
Capital requirement for operational risks	77.5	53.9
Capital requirement for foreign exchange risk	0.1	0.1
Total capital requirement	330.8	187.2
Capital adequacy quota	5.71	10.09
Capital adequacy ratio	45.7%	80.7%

Capital basis

As per the end of the year, the capital base had been reduced through Group contributions to the Kommuninvest Cooperative Society to enable the distribution of surpluses by means of refunds totaling SEK 375 million (0) and the Board of Directors' proposal for the appropriation of earnings where no dividend is proposed.

Capital requirement

Credit risk in accordance with standardised method

	2011	2010
1. Exposures to states and central banks	-	-
2. Exposures to municipalities and comparable cooperatives, and authorities	-	-
3. Institutional exposures	248.3	125.9
4. Corporate exposures	0.3	0.3
5. Other items	2.3	2.8
Total capital requirement for credit risks	250.9	129.0
Risks in trading operations		
Interest risks		
- Specific risk	1.3	2.9
- General risk	1.0	1.4
Total capital requirements for risks in trading operations	2.3	4.3
Operational risks		
Basic indicator method	77.5	53.9
Total capital requirement for operational risks	77.5	53.9
Foreign exchange risk		
Foreign exchange risk	0.1	0.1
Total capital requirement for foreign exchange risks	0.1	0.1
Total minimum capital requirement	330.8	187.2
Starting capital	9.3	9.3

Five-year summary

SEK, million	2011	2010	2009	2008	2007
KEY RATIOS 2007-2011					
Growth					
Lending (change in %)	25.7	8.2	18.1	34.3	16.7
Net interest income (change in %)	32.5	13.1	151.3	91.0	-20.6
Consolidation					
Capital base as % of balance sheet total	0.81	0.99	0.40	0.34	0.37
Adjusted capital base as % of balance sheet total ¹	0.95	0.99	0.40	0.34	0.37
Capital adequacy quota	5.71	10.09	4.24	3.35	1.81
Adjusted capital adequacy quota ¹	6.72	10.09	4.24	3.35	1.81
Capital adequacy ratio (%)	45.7	80.7	33.9	26.8	14.5
Adjusted capital adequacy ratio (%) ¹	53.7	80.7	33.9	26.8	14.5
Efficiency					
Administration expenses as a percentage of lending ²	0.143	0.127	0.109	0.083	0.103
Administration expenses, excluding the stability fee, as a percentage of lending ²	0.093	0.096	0.088	0.083	0.103
Administration expenses as a percentage of balance sheet total ²	0.103	0.089	0.073	0.061	0.073
Administration expenses, excluding the stability fee, as a percentage of balance sheet total ²	0.067	0.067	0.059	0.061	0.073
Lending/employee (SEK millions)	2,848.7	2,523.2	2,522.9	2,552.6	2,106.4
Change (%)	12.9	0.0	-1.2	21.2	19.8
Return					
Operating income after standard tax as a percentage of average equity	32.28	23.45	38.32	12.06	6.34
Cost/income ratio (C/I)					
Total expenses in relation to net interest income and other operating income	0.42	0.39	0.35	0.57	1.00
Other information					
Number of employees	59	53	49	41	37

¹ Adjusted capital base: capital base adjusted for the capital injection from the Kommuninvest Cooperative Society to be decided on by the 2012 Annual General Meeting of the Society regarding earnings for the current year. The capital injection related to earnings for 2011 amounted to SEK 276 million. The adjusted capital base is used to calculate the Adjusted capital base as a percentage of the balance sheet total, Adjusted capital adequacy quota and to calculate the Adjusted capital adequacy ratio.

² Administration expenses relates to general administration expenses, depreciation and other operating expenses.

Appropriation of surplus

The Board of Directors and President propose that:	
the profit for the year	300,584,326
profit brought forward	191,549,477
fair value reserve	-87,555,478
total	404,578,325
be appropriated as follows	
To be carried forward	404,578,325

Applicable rules for capital adequacy and major exposures mean that Kommuninvest must at all times have a capital base which at least corresponds to the total of the capital requirements for credit risks, market risks and operational risks, and

should also encompass the estimated capital requirements for other risks identified in the operation in accordance with Kommuninvest's internal capital assessment policy. Kommuninvest's capital adequacy quota after the proposed allocation of profits amounts to 5.71 (10.09). The capital base amounts to SEK 1,890 (1,888) million after the proposed allocation of profits, and the final minimum capital requirement amounts to SEK 331 (187) million. A specification of items can be found in Note 27 on capital adequacy.

Kommuninvest's financial position does not give rise to any assessment other than that Kommuninvest can be expected to fulfil its obligations in both the short and the long term.

For information on Kommuninvest's results and general position, please refer to the income statements and balance sheets with associated comments on the financial statements.

We hereby certify that the Annual Report has been prepared in accordance with generally accepted accounting principles, that the Annual Report gives a true and fair view of the development of Kommuninvest's operation, financial position and results and describes the material risks and uncertainties facing the Company.

Örebro, 7 March 2012

Björn Börjesson
Chairman

Ellen Bramness Arvidsson
Vice Chairman

Lorentz Andersson

Kurt Eliasson

Anna von Knorring

Catharina Lagerstam

Anna Sandborgh

Johan Törngren

Tomas Werngren
President and CEO

Our Audit Report was submitted on 7 March 2012
Ernst & Young AB

Peter Strandh
Authorised Public Accountant

Audit Report

To the Annual General Meeting of Kommuninvest i Sverige AB (publ), corporate identity number 556281-4409

Report on the annual accounts

We have audited the annual accounts of Kommuninvest i Sverige AB (publ) for 2011 with the exception of the Corporate Governance Report presented on pages 49-55. The Company's annual accounts are included on pages 35-82 of the printed version of this document.

Responsibilities of the Board of Directors and the President for the annual accounts

The Board of Directors and the President are responsible for the preparation and fair presentation of the annual accounts in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and for such internal controls as the Board of Directors and the President determine are necessary to enable the preparation of annual accounts that are free of material misstatement, regardless of whether this is due to fraud or errors.

Responsibility of the Auditor

Our responsibility is to express an opinion on the annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden. Those standards require that we comply with ethical requirements and that we plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors and the President, as well as evaluating the overall presentation of the annual accounts and consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies and present fairly, in all material respects, the financial position of the Company as of 31 December 2011 and its financial performance and its cash flows for the year then ended in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies. Our opinions do not cover the Corporate Governance Report on pages 49-55. The statutory administration report is consistent with the other parts of the annual accounts.

We therefore recommend that the annual meeting of shareholders adopt the income statement and balance sheet for the Company.

Report on other legal and regulatory requirements

In addition to our audit of the annual accounts, we have ex-

amined the proposed appropriations of the Company's profit or loss and administration of the Board of Directors and the President of Kommuninvest i Sverige AB (publ) in 2011. We have also conducted a statutory examination of the Corporate Governance Report.

Responsibility of the Board of Directors and the President

The Board of Directors is responsible for the proposal for appropriations of the Company's profit or loss. The Board of Directors and the President are responsible for the administration of the Company in accordance with the Companies Act and the Banking and Financing Business Act and that the Corporate Governance Report presented on pages 49-55 is prepared in accordance with the Annual Accounts Act for Credit Institutions and Securities Companies.

Responsibility of the Auditor

Our responsibility is to express an opinion with reasonable assurance on the proposed appropriations of the Company's profit or loss and the administration of the Company based on our audit. We conducted our audit in accordance with generally accepted auditing standards in Sweden.

As a basis for our opinion concerning discharge from liability, in addition to our audit of the annual accounts, we examined significant decisions, actions taken and circumstances of the Company in order to determine whether any member of the Board of Directors or the President is liable to the Company. We also examined whether any member of the Board of Directors or the President has, in any other way, acted in contravention of the Companies Act, the Banking and Financing Business Act, the Annual Accounts Act for Credit Institutions and Securities Companies or the Articles of Association.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Furthermore, we have read the Corporate Governance Report and based on that reading and our knowledge of the Company we believe that we have obtained a sufficient basis for our statement. This means that our statutory examination of the Corporate Governance Report is different and substantially less in scope than an audit conducted in accordance with International Standards on Auditing and generally accepted auditing standards in Sweden.

Statements

We recommend that the Annual General Meeting appropriate the Company's profits in accordance with the proposal presented in the Board of Directors' Report and that the Meeting discharge the Members of the Board of Directors and the President from liability for the financial year.

A Corporate Governance Report has been prepared and its statutory content is consistent with the other parts of the annual accounts.

Örebro, 7 March 2012
Ernst & Young AB

Peter Strandh
Authorised Public Accountant

Review report

We the lay auditors, appointed by the Annual General Meeting, have examined the operation of Kommuninvest i Sverige AB.

The Board of Directors and President are responsible for the operation being conducted in accordance with the Articles of Association and owner directive as well as the regulations pertaining to the operation. The responsibility of the lay auditors is to examine the operation and control and assess if the operation has been conducted in accordance with the mandate of the Annual General Meeting.

The examination was made in accordance with the Swedish Companies Act. By reviewing documents/basis for decisions, protocols/information and by discussion with Management, Chairman of the Board and the authorised auditors, the audit has been made with the focus and scope necessary to give a reasonable basis for opinion and assessment.

It is our opinion that the Company's operation has been carried out in a purposeful and financially satisfactory manner and the Company's internal control has been sufficient.

Örebro, Sweden 7 March 2012

Barbro Tjernström

Anita Bohman

The Port of Varberg.
The Municipality of Varberg
is a member of Kommuninvest
Cooperative Society since 1993.





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